

Nation's Business

A USEFUL LOOK AHEAD

NOVEMBER 1959

HOW YOUR



INCOME TAXES



CAN BE CUT

PAGE 70

By **CHAIRMAN WILBUR D. MILLS**
House Ways and Means Committee

Where unions go from here **PAGE 31**

How to build a winning sales team **PAGE 34**

Your state can avoid going broke **PAGE 58**

Trade tension for creativity **PAGE 38**



... a hand in things to come

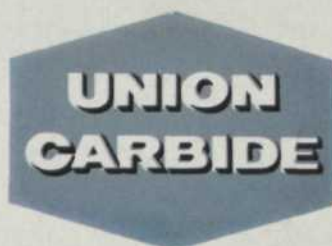
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Nation's Business

November 1959 Vol. 47 No. 11

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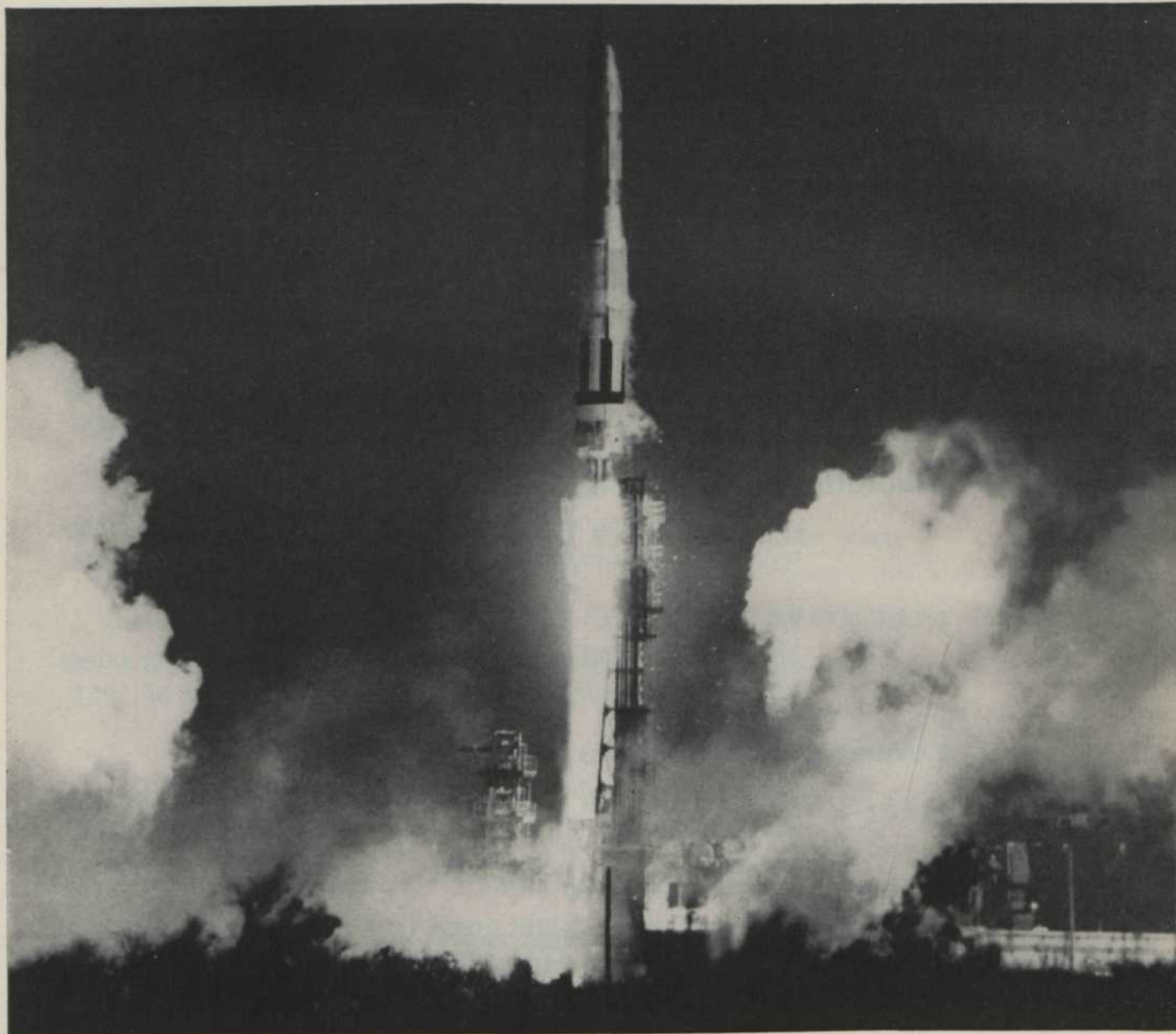
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WESTERN ELECTRIC AND



MASSIVE TITAN ICBM, being developed for SAC by the Air Force Ballistic Missile Division, can hit targets a quarter-way around the world with pinpoint accuracy. Command guidance system was developed by Bell Telephone Laboratories and built by Western Electric.



THE MEN of Western Electric's Field Engineering Force instruct and advise the Armed Forces on W.E.-made equipment that helps direct guns, bombs and missiles for the Army, Navy and Air Force.



DEW LINE of radar stations built by W.E. for the Air Force in 32 months, has now been extended across the Aleutians. Hundreds of Bell System people bucked the Arctic to help build it.

NATIONAL DEFENSE

From the DEW Line in the Arctic to Air Force Titan ICBM sites here at home, Western Electric's telephone experience has been put to work in the nation's defense.

Telephone work may seem a far cry from the production of command guidance systems for Titan ICBM's or the building of the DEW Line. Yet, Western Electric was asked to lead the industrial teamwork on these and other important defense assignments precisely because of the special capabilities it developed as manufacturing and supply unit of the Bell Telephone System.

Our being asked to produce the Titan guidance systems — plus radar systems for other missiles, guns, bombs, planes and ships — stems from Western Electric's experience as a manufacturer of telephone communications equipment. An ability to turn ideas swiftly and smoothly into working realities has developed because of the close integration of our efforts with those of the Bell Telephone Laboratories.

Our being asked to build the DEW Line and provide management services for SAGE — gargantuan problems in logistics — becomes understandable in light of Western Electric's supply job for the Bell System: marshalling men and materials, coordinating the activities of thousands of suppliers, to provide the things needed for telephone service.

In short, Western Electric's experience in handling vast projects of great technical complexity — plus its ability to bridge the gap between research and operation — presents a ready-made package useful to the government.

We are glad that our Bell telephone work has so equipped Western Electric to serve the nation's defense.

Western Electric

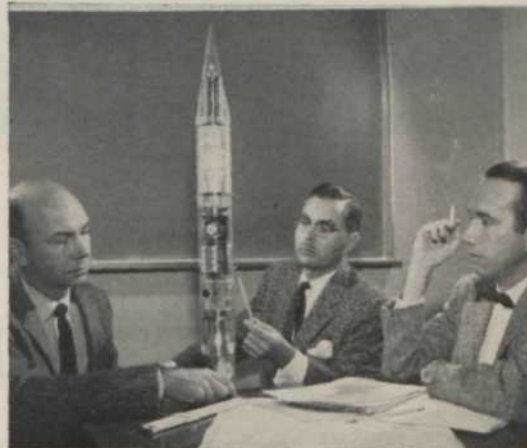
MANUFACTURING AND SUPPLY



UNIT OF THE BELL SYSTEM



U.S. ARMY'S NIKE HERCULES has now joined the earlier Ajax at Nike sites near key U.S. cities. Command guidance equipment for the Nike is made at Western Electric's North Carolina plants.



DOLLAR-A-YEAR JOB. At the request of the Atomic Energy Commission, Western Electric manages the Sandia Laboratories in Albuquerque, New Mexico. Mission: to help bridge the gap between research and production of complex atomic weapons.



SAGE NERVE CENTER. Western Electric is responsible for management services during the building of the Air Force's vital SAGE project, which is making the nation's air defense semi-automatic.



NATIONWIDE TEAM of 5,900 companies, from W.E.'s supplier force of 30,000-plus, helps with defense work. Among them Douglas Aircraft, maker of Nike air frame.

"Let's liquidate 'em and re-invest in inventory"



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management's WASHINGTON LETTER

►GET READY for the Christmas rush.

With plenty of cash and credit, more Americans than ever before (population has just turned 178 million) are ready for a buying spree.

Customers are expected to buy more than \$40 billion worth of merchandise this month and next.

That'll boost total retail sales for '59 to the neighborhood of \$215 billion --an increase of about \$15 billion above '58 total.

►ECONOMIC PROJECTION SHOWS:

Between now and Christmas Eve, Americans will be spending an average of \$6.3 billion per week.

That's actual spending of cash, doesn't count credit buying--which will be heavy this year.

Cash buying will be running about \$500 million a week higher than it was during past Christmas season. Note: Had there been no steel strike, the sum would have jumped more.

►THERE'S TALK about economic hesitation.

Here's what talk is all about:

Economic growth pattern has been temporarily upset.

But only temporarily.

Blame steel strike primarily.

Here are the slow-up facts, plus a look ahead at trends in '60:

All goods and services produced during first three months of '59 were valued at annual rate of \$470 billion.

That's called gross national product, often abbreviated GNP. Figure measures total economic activity.

During second quarter the figure rose to \$484.5 billion.

Then economic slippage began--just as the steel strike got under way.

Figure may slump to \$476 billion.

(Preliminary figure will be out soon, then adjusted within couple of months as more complete data come in.)

Now comes the snap-back.

Final months of '59 will see an upsurge of production to a probable \$496 billion annual rate.

First months of '60 will see growth rate picking up steam fast--climbing to \$500 billion annual rate.

By the end of '60, total value of

all goods and services will probably reach the annual rate of more than \$515 billion.

That rate is expected just about a year from now.

►THIS YEAR WILL RANK HIGH among worst strike years.

Background:

5,117 strikes kept 3.5 million workers idle 59.1 million man-days in '52.

4,600 strikes kept 4.6 million persons idle 116 million man-days in '46.

Those were record-breaking years.

Forecast: Number of man-days lost from strikes this year is mounting toward a new record.

►STRIKE LOSSES WILL GO DOWN next year and in '61.

There'll be fewer wage disputes.

Projection is based on U.S. Bureau of Labor Statistics analysis of contracts that will expire.

Only 81 labor contracts covering 1.1 million employees will come up for negotiation next year.

In '61 only 37 contracts covering fewer than a million workers will come up.

Contrast these with 155 contracts covering 5.6 million workers this year.

►KEY INDUSTRIES TO WATCH in next year's bargaining:

Electrical manufacturing, aircraft, men's clothing.

Auto and trucking industries will come up for bargaining in '61.

►SOME OF THIS YEAR'S unsettled disputes are likely to spill over into early '60.

Watch these possibilities:

East Coast dock strike--injunction will expire two days after Christmas.

Railroads--February is strike stage.

Note: After 80 days of injunction period expire, without settlement, President makes a report to Congress.

Area is then open for congressional action.

►TIGHT MONEY will bring heavy pressure in Congress--when next session begins two months from now--for legislation to ease the money pinch.

Look for these actions:

Supporters of easy money policy to

push for new housing and veterans' lending programs, new Small Business Administration loan authority, federal help on school construction and other local building projects hard-pressed for financing.

You can also expect congressmen to call for restriction of Federal Reserve Board powers regarding tight money.

Prediction:

New legislation to use federal money for bigger, freer loans and grants will meet Administration opposition.

► CONGRESS IN JANUARY will again be asked to remove the 4% per cent interest ceiling on long-term federal debt.

Congress refused to act on President's request last summer.

But the issue is not settled.

Here's why:

Debt management is growing more difficult.

Look at average debt maturity--that's period during which a sum equal to the entire debt comes due.

At the end of June, average debt maturity was 43 months.

Now it's 41 months.

Average was 51 months in mid-'58.

It was 58 months in mid-'55.

Here's the picture on total interest:

Average interest paid on the whole debt now is 3.14 per cent.

Figure was 2.87 per cent in June.

It was 2.64 per cent in mid-'58.

It was 2.35 per cent in mid-'55.

Significance of the new interest peak is this:

Total interest cost now exceeds \$9 billion per year--more than our government spent for the entire federal budget for all purposes during any single year up to the beginning of World War II.

Background for coming interest-rate battle appears on page 14.

► UNCLE SAM IS GETTING READY to collect the biggest tax bill in history--in war or peace.

New government analysis indicates that '60 collections will jump nearly \$11 billion above '59 total.

That means:

Corporations will pay an estimated \$5.2 billion more than '59.

Individuals will pay \$4.3 billion more.

Excise taxes will bring in about \$600 million more and all other tax receipts will go up about \$800 million.

Estimates are based on a continuation of the boom.

► GOOD BUSINESS BAROMETER to watch in coming months is average workweek.

Changes in length of average workweek can signal economic fluctuations months in advance.

Here's what to look for:

We're now in economic boom.

That is, business is expanding.

About seven months before the growth period ends, average hours worked in manufacturing can be expected to switch direction.

This is indicated by economic study of all business fluctuations since the end of World War I.

Where are we now?

Factory workers are averaging more than 40½ hours per week.

That's about one hour more than the average workweek a year ago.

It's highest since '55.

Trend is still upward, but Washington economists think it's about as high as it will go.

According to theory mentioned above, the workweek will begin to slack off approximately seven months ahead of the next general business downswing.

During the downswing, the number of hours worked will begin to rise about three months before the bottom of the slump is reached.

But remember:

Don't rely wholly on hours of work to signal economic changes.

These are averages for fluctuations since the end of World War I.

Prolonged steel strikes can upset the reliability of indicators such as this.

But this is one of the indicators the economists in Washington will be most interested in during months ahead.

► IF YOU HAVE QUESTIONS about your duties and obligations under the new labor law --Landrum-Griffin Act--you can address them to the new:

Bureau of Labor-Management Reports, Department of Labor, Washington 25, D.C.

management's WASHINGTON LETTER

Bureau was set up to receive reports and answer your questions.

Secretary of Labor Mitchell warns that employers must report:

Any loans made to unions or union officers.

Secret payments to any employee, group or committee intended to influence other employees with regard to their right to organize and bargain collectively.

Agreements with or payments made to a consultant on labor matters.

Employer groups or associations dealing with a union must also remove any employee who, within the past five years, has been a Communist Party member or was convicted of certain crimes.

Secretary Mitchell says employers have a continuing duty to make inquiries about persons forbidden to hold office and to take immediate action where removal is called for under the law.

Here's a possible future development to watch for:

A court test of this provision on grounds that an ex-convict or former communist is being subjected to retroactive punishment.

► **RETIREMENT PAY** for military personnel worries a growing number of government officials.

Here's why:

In fiscal '50 the U. S. Treasury paid retired military men and women a total of \$219 million.

Figure this year will jump to \$715 million.

In '62 it'll exceed \$1 billion.

In that year government spending to pay retired military personnel alone will exceed all federal revenue combined in 1917.

Number of persons drawing pay has gone up 38,000 during past two years and will go up significantly more in years ahead.

Estimate points to a probable \$3 billion cost by 1983.

Officials point out:

There's nothing like this system in government or industry.

After 20 years of service and with no personal contributions at all, a person may retire from military service without regard to age.

He gets half his basic pay.

► **MORE COMPANIES ACT** to encourage employees to take part in politics.

Here's action Ford Motor Company has taken for employees elected to full-time public office:

Officeholders on leave of absence will have the same protection with respect to employment rights, benefits, retirement, pensions that were given to employees who entered wartime military service.

Ford also has expanded program started in 1950 to include:

A top management committee to review legislation and governmental matters that affect the company.

A regional field organization of eight offices to assist local management in civic and governmental matters.

A training program in practical politics.

You can obtain details about "Action Course in Practical Politics" from Business Relations Department, U. S. Chamber, at Washington 6, D. C.

► **IS THERE A BABY BUGGY** shortage?

Young mother-to-be thinks there is.

A leading manufacturer says no.

The problem isn't the 4.3 million babies born this year--nor the 68 million born in the past 19 years.

It's their mothers--they're hard to please.

Company has a big research department experimenting with styles, models, colors, new materials, folding mechanisms.

New models for '60, to be shown soon, range from tiny fold-up types to large, comfortable, cruiser coaches.

Other major changes, coming soon, may include light-weight models that fold up to fit under the seat of an airliner or bus.

"We've got 33 models to pick from, and plenty of each kind," manufacturer says.

"But this young mother thinks there's a baby buggy shortage because she hasn't found the particular kind she wants.

"That's the risk of doing business. We can keep up with the babies but we have to run hard to keep up with mothers' whims.

"Come to think of it," executive adds, "I suppose all consumer industries face about the same problem we in baby buggies face--how to find out what consumers want."



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Business opinion:

British Railways cite efficiencies

IN YOUR JULY issue the following sentence appears: "Bad as the railroad service is in England, there is now no practical alternative to continued state ownership and operation."

I am surprised that a responsible journal such as yours would carry such a remark.

To be bad infers comparison and I am wondering with which railroad services you compare the British to arrive at the description used.

British Railways operate 24,000 passenger trains each weekday, which haul upwards of three million persons or more than a billion persons every year.

In addition, 14,000 freight trains are operated daily and the 40,000 daily passenger and freight trains operate over a total of 52,000 miles of track.

It is noteworthy, too, that the Nationalised British Railways employ nearly 100,000 fewer staff than they did when privately owned.

With such a record I do feel that the sentence mentioned should be qualified or modified in the light of the true circumstances.

G. F. LUTHER
Resident Vice President &
General Traffic Manager
British and Irish Railways, Inc.
New York 20, N. Y.

Red trade

I was a bit shocked that in your September issue you completely eliminate telling readers that while it is true that our Administration takes the view that we will trade only "nonstrategic" goods with Soviet Russia, there has been an abundance of testimony before congressional committees proving that all goods shipped from here to Soviet Russia are, indeed, strategic. This even includes shirt buttons.

Anything shipped from here to Soviet Russia helps them in their communist effort because if they can get goods from us, even for their own consumer consumption, that frees their workers for making war materiel. This is a fact which has been established time and time again. I believe your magazine, in

discussing trade between this country and Soviet Russia, should bring out this point and make it clear to readers that while our Administration takes one view, an entirely different view is held by those who are not naive in regard to communism.

ROBERT E. OSTE
Berryville, Virginia

Let's halt wage spiral

It is time we did something about inflation. Each year organized labor continues to make larger demands for wages which keep creating more inflation. The momentum has grown so that, actually, every time we get a wage increase, it means a decrease, because it is added to the cost of production. So, it has come to the point where labor is actually working against itself and the land by wanting more money.

What we are actually doing is running capital off to foreign countries where it can build and manufacture goods far cheaper than it can here. What we need to do is to level off at a fair standard to all concerned and then try to bring the living standards up in these other countries in order that we can compete with them in manufacturing our goods.

R. B. LEAVELL
Port Arthur, Texas

Salary spread

Your magazine quoted me in the article titled, "These Forces Affect Your Pay" (October issue).

Upon reading this reference I found that that which your writer stated I recommended, and what I actually practice, are two different things. The critical omission in your article is the fact that I recommended a spread of 50 per cent between minimum and maximum for salary rates only. The context in your article appears to indicate that I would recommend a 50 per cent spread for a range of total compensation (to include bonuses). Since this is quite contrary to practice, it is a little embarrassing to me. As a matter of fact, our ranges of total compensation run from 50 per cent in the lowest management echelons

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Permission is requested to reprint 225 copies of the editorial appearing in the September 1959 issue called "Bargaining Has Not Failed" for distribution to the company's labor relations representatives.

M. A. DARLING
Labor Relations Services Dept.
Industrial Relations Staff
Ford Motor Company
Dearborn, Michigan

Saturation

Your July article on "Labor in Politics" is certainly getting a lot of attention. It seems that someone is referring to it everywhere I go.

E. B. DUNCKEL
General Electric Co.
New York, N. Y.

Needs more copies

We find so many interesting and valuable articles in this magazine that we would like to subscribe to seven additional copies to be directed to our branch managers.

T. S. JOHNSON
President
Atlanta-New Orleans Motor Freight Co.
Atlanta, Ga.

Defends minimum wage

In "Minimum Wage Hurts Workers" Dean Lockley apparently is attacking the entire concept of the minimum wage as being an instrument of unemployment and a thorn in the side of the unskilled worker.

Dean Lockley states that a minimum wage "of any size" would result in the displacement of the lowest-grade workers. I may agree with the dean on this point, if a minimum wage "of any size" were four or five dollars per hour. As it is, the one dollar per hour federal minimum wage and the various higher and lower state wages could hardly be considered labor-displacing wages.

Agreed that workers should not be paid for work not done, but production has increased, and labor is becoming the most scarce factor of production (even though the population has grown by leaps and bounds). One must remember the most important fact concerning wages: Employers will pay what they have to, not what labor is worth. This is why I can say that there is a basis for our minimum wage laws.

MICHAEL L. PETERSON
Lewiston, Idaho



GOURMET FOOD CARRIER... styled to give quality look, new appetite appeal to carry-out orders of Chinese food, chicken, pizza, other "house specialties."

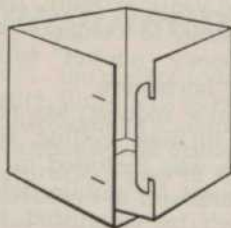


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Just add dressing and serve. Makes salad a convenience food. Helps produce markets use up low or broken stocks.



Smart merchandisers take every opportunity to cut costs, provide better service, give their business a mark of distinction. Here are four help-you-sell products that can be made of low-cost, liquid-resistant paperboard. They're designed to catch a buyer's eye, spark impulse purchases, build repeat business. Monsanto's **MERSIZE®** makes paper products like these water resistant. If you can use one of them, ask your regular paper products supplier about it. Or write Monsanto direct. Just cut out the idea you like, clip it to your letterhead and send it to the address shown at right.



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Take a look at what *you* can do with water-resistant paper and paperboard. Get the facts from your regular paper products supplier, or any nearby paper converter or paper mill.

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Buy... Sell... or Hold?

Sometimes it is hard to make up your mind about certain securities, particular stocks.

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THIS ISSUE**

What ceiling on bond interest costs you

Here's how curb on public debt management affects business

CONTINUED REFUSAL by Congress to remove the interest ceiling on long-term Treasury bonds will deal American businessmen a triple blow:

► Short-term loan interest rates will be subjected to upward pressure.

► Less short-term money will be available to business borrowers.

► Added impetus will be given to the inflationary spiral.

When Congress comes back in January it will need to reconsider its failure to grant President Eisenhower's request to take off the ceiling. The President has termed the failure "one of the most serious things that has happened to the United States in my time."

Barred by a 41-year-old law from paying more than 4½ per cent interest on new issues of government securities of five years or more, the Treasury is unable to compete in the current money market with other long-term borrowers.

The President's request for removal of the interest ceiling on long-term bonds was included in a three-part proposal for public debt legislation which he submitted to Congress last June. He also asked an increase in the limit of the public debt and elimination of the ceiling on the interest rate of savings bonds.

Congress acted promptly to raise the debt limit, though it did not give all that was asked. Later it boosted the savings bond interest ceiling. Democratic leaders in Congress, however, bowing to the wishes of soft-money members of their party, smothered the proposal to remove the interest ceiling on long-term bonds.

Unable to spread its indebtedness

at competitive rates of interest among short, intermediate and long-term bonds, the Treasury is now forced to crowd all of its borrowing into the short-term market. There is no limit on the interest rate it can pay on obligations under five years, and this remains the only area where it can compete with such other attractions for investors' money as corporation bonds and stocks, state and municipal bonds, and real estate mortgages.

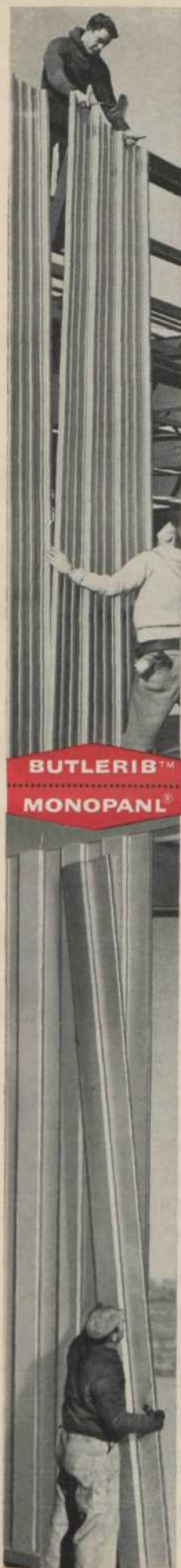
The impact of added Treasury borrowing in the short-term market will tend to force interest rates there even higher. Last month the Treasury offered five per cent interest, the highest it has paid since the 1920's, to assure the sale of \$2 billion in notes due in four years and 10 months and \$2 billion in tax anticipation bills due next June.

The short-term market is a primary one for most businessmen seeking operating capital, and steadily rising interest rates in this area will increase the cost of doing business.

In addition, businessmen will find that sharply increased government borrowing in this market will make funds scarcer for businessmen seeking short-term financing.

An even more serious consequence is the added force given to inflationary pressures. Under Secretary of the Treasury Fred C. Scribner, Jr., explains the danger this way:

"In the first place, a long-term bond is a true investment, but a short-term Treasury security is only a few steps away from being money. It can be sold easily in the market, at or about its redemption price, to obtain funds to spend for goods and services, or the holder can simply wait a few days or weeks until it



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BOND INTEREST

continued

matures, demand cash from the Treasury, and spend the proceeds.

“Second, commercial banks make up a much larger part of the market for short-term Treasury securities than for long-term issues. When banks buy securities they create new deposits. This adds to the money supply. An expanding money supply, during a period when pressures on economic resources are intensifying, adds momentum to inflationary forces.”

Paying a higher interest rate on the national debt would be far less costly to the public than inflation. A one per cent rise in the Consumer Price Index would cost consumers \$10 billion. A rise in the interest rate on new Treasury issues might cost a few hundred million dollars a year.

To manage the public debt in a sound manner the Treasury needs flexibility in placing its obligations—it must be able to borrow money for long as well as short periods. Financing entirely in the short-term range can only add to future problems of debt management.

At present nearly three fourths of the marketable public debt will mature within five years. As more and more debt is pushed into the short-term area, future refundings of maturing issues will come more frequently and in larger amounts.

President Eisenhower explained the problem in simple terms:

“Suppose that an individual had a mortgage on his home that had to be renewed every few months. He would be exposed to every shift in the economy and to every change in financial conditions. Yet, the Congress, in effect, is forcing the Treasury into this type of exposed position. It is saying to the Treasury, ‘When you have any borrowing to do, do it all on a short-term basis.’”

What has caused the rise in interest rates since early this year, when the Treasury was able to sell long-term bonds at four per cent?

Interest is the price paid for borrowed money. When there are more borrowers than lenders, the price of money goes up. The heavy demand for credit this year is a reflection of the fact that our economy is expanding. The demand for funds by businessmen, home builders, state and local governments, and other borrowers is pushing against a relatively modest volume of sav-

(continued on page 21)



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BOND INTEREST

continued

ings. Adding to this is the record peacetime federal budget deficit of \$12.5 billion in the 1959 fiscal year, with its consequent increase in federal borrowing.

Treasury officials predict that, if the ceiling on long-term financing is removed, short-term interest rates will subside to a more natural level. They also believe that the resulting increase in investor confidence in the soundness of the dollar might prevent long-term interest rates from rising.

Opponents of the President's request propose that the Federal Reserve banks buy long-term Treasury bonds at interest rates just below the $4\frac{1}{4}$ per cent ceiling. This was done in the period before 1951, when the Federal Reserve pegged the government's long-term interest rate to hold it down. The results proved so inflationary, however, that the policy was dropped. Prices rose 10 times as fast in the five years preceding 1951 as they did in the five years following.

If the Federal Reserve banks buy Treasury bonds, they do so simply by crediting the government with a deposit created for the amount of the bonds. This deposit enters the reserves of the banking system and, since banks can lend money up to six times the amount of their reserves, the supply of credit is expanded with inflationary consequences.

Failure of Congress to give the Treasury the tools it needs for sound debt management could have international repercussions. Foreign investors have substantial holdings of this country's securities and a practical interest in how the United States handles its affairs. As the President has pointed out, it is essential that they continue to view the American dollar as a sound and stable currency.

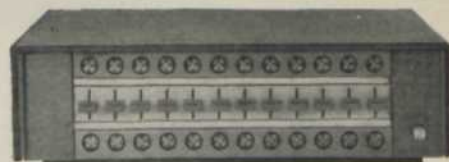
With 1960 an election year, observers see shaping up possibly the greatest battle over money since the presidential campaign of 1896, when William Jennings Bryan unsuccessfully declaimed against the "cross of gold." Under Secretary of the Treasury Scribner has put the people's choice in these terms:

"They must choose between artificially low interest rates created by soft money, and the inflation that results, or the flexible interest rates that are essential if inflation is to be avoided and growth is to be healthy and long-lasting." **END**

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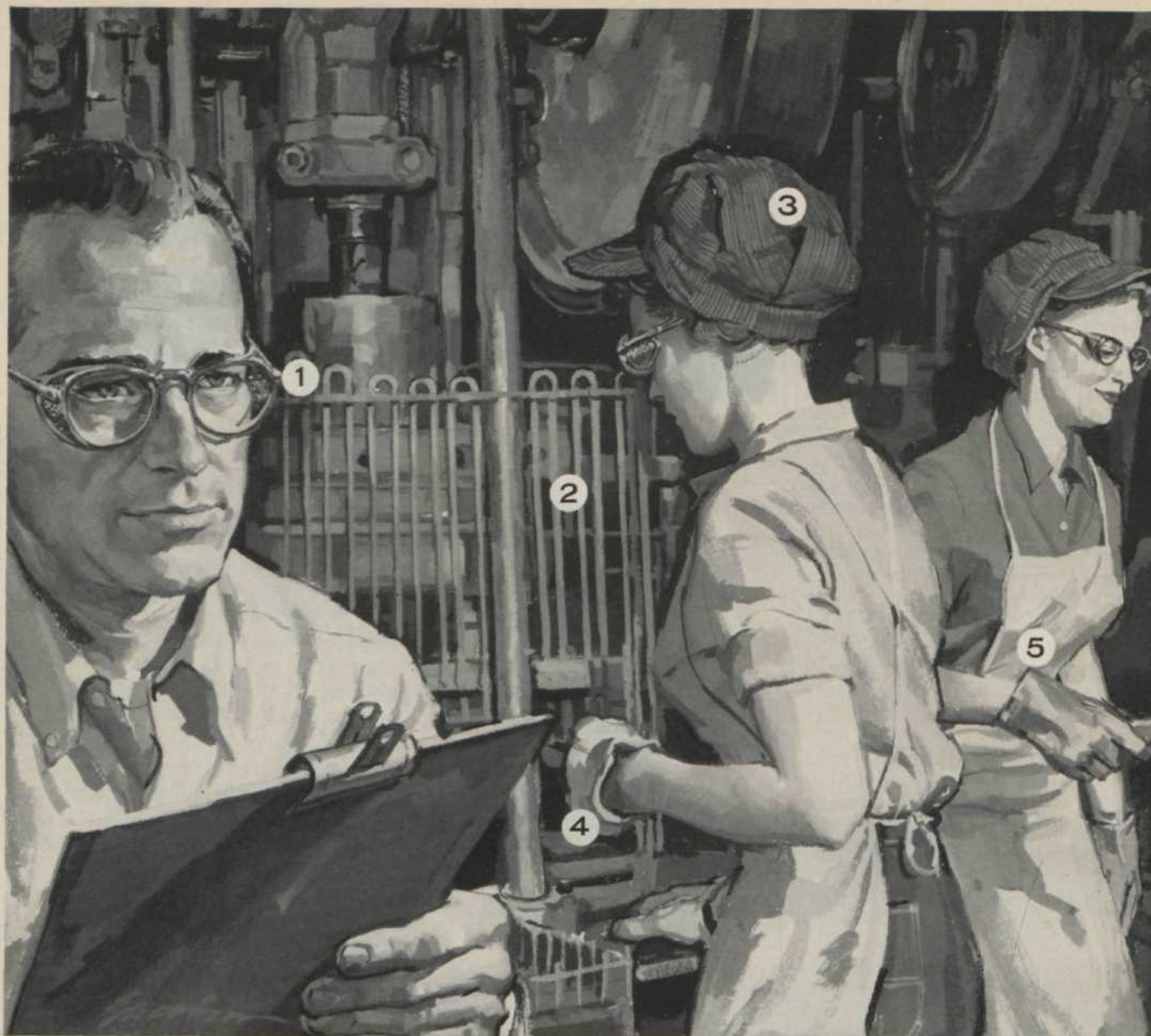
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Washington mood

BY EDWARD T. FOLLIARD

What's behind Khrushchev peace talk

THE EXPECTATION at the Pentagon is that spending on our armed forces will continue at the current rate—\$41 billion annually—for at least another three years.

What happens after that will be up to the world's statesmen, particularly the leaders of the United States and the Soviet Union. It will depend upon whether they are able to work out some kind of live-and-let-live arrangement, and so pave the way for a reduction of armaments.

Soviet Premier Nikita S. Khrushchev's proposal for general and complete disarmament—meaning, in his words, that "land armies, navies and air forces will cease to exist"—was received by most Americans with a good deal of skepticism and suspicion.

Dr. George Gallup, after a survey, reported that 59 per cent of those questioned felt that the Russian ruler was "not sincere." Only 20 per cent thought that he was sincere, and 21 per cent had no opinion.

Still, President Eisenhower thinks that something might come of Mr. Khrushchev's plan, perhaps a slow phase-by-phase reduction of armaments. The two of them talked about it at their Camp David meeting, and the soldier-statesman later told reporters how the communist boss "deplored" the vast wealth that his country has had to put into the engines of war.

Sir Winston Churchill, a realist if ever there was one, said recently that "we have seen some sign that the long period of suspicion and abuse may be ending." He said that if reduction of armaments—or total abolition—could be achieved, it should be accompanied by the creation of an international police force to keep order in the world.

It was this old British lion, now 84, who first sounded the alarm after Joseph Stalin opened the cold war. Mr. Churchill warned in his great Iron Curtain speech at Fulton, Mo., in 1946 that the Russians despised weakness and respected only strength.

Has the Soviet Union's goal of world domination

really changed since Stalin's time? Is the pledged word of the Kremlin any better now than it was then?

The answer to the first question was given by Premier Khrushchev while he was in the United States. He predicted bluntly that communism would "bury" capitalism, just as capitalism once triumphed

MARC RIBOUD (MAGNUM)



Sir Winston Churchill: "We have seen some sign that the long period of suspicion and abuse may be ending"

over feudalism. But he said that the burying would be done through friendly competition.

As for the second question, the United States and its allies have no thought of relying on Soviet pledges in connection with arms reduction. They would have to have some foolproof system of inspection that would be a guarantee against treachery.

President Eisenhower does believe that Premier Khrushchev is sincere when he inveighs against another great war. He said so while Mr. K. was in

this country. He said it at a news conference in a colloquy that went like this:

Reporter—"Mr. President, from time to time, you have said that there is no alternative to peace—that a great war would be stupid, crazy. Mr. Khrushchev seems to be talking pretty much along the same line. Do you think he really shares your horror of a great war?"

The President—"Frankly, I believe that is the one thing [on which] he does agree with us fully."

Khrushchev did so much bragging in the United States, built up so many headlines by scolding Holly-

CARTIER-BRESSON (MAGNUM)



Pledge to give the Soviet people better housing, more consumer goods may force Khrushchev to taper off the arms race

wood and threatening to go home mad, that his anti-war talk was largely overlooked. But in his rough and tough way he was one of the most eloquent apostles of peace who has come this way in a long time—that is, if it could be assumed, as the President assumed, that he meant what he said.

In toasting the President at a state dinner in the White House, the Premier said that the United States and the Soviet Union were "much too strong" to quarrel; that a conflict between them would result in a "world shambles."

Next day, in a speech at the National Press Club, he struck the same note, saying:

"The Soviet Union and the United States are faced with this alternative: Either the latest achievements of scientific and technical thought—the discovery of the secret of the atom, the development of rockets and the penetration of outer space—will be placed in the service of a peaceful future and prosperity of mankind, or they will be used for the purpose of destruction and annihilation—and, as a result, the earth will be covered with ashes and graves.

"The Soviet people have long made their choice for peace."

What Premier Khrushchev was saying here, of course, was that the Soviet Union wants peace so long as it can hold on to its empire, including Poland, Hungary, East Germany and all the other captive states for whose liberation millions pray daily.

But to get back to the question of armaments: Some Americans who have made a firsthand study of the Soviet Union are convinced that Mr. Khrushchev is being pushed toward a reduction of military spending by the compulsions of his situation at home.

Harrison Salisbury, for a number of years the Moscow correspondent of the *New York Times* and a recent visitor there, says that Mr. Khrushchev's ambition is to ease off the cold war and get going full-scale on peaceful production.

He reported in the *Times* that the Soviet leader really wants to give the Russian people some of the good things of life, things that have been promised them for more than 40 years, ever since the Bolshevik Revolution of 1917.

Mr. Khrushchev already has made some headway. An ambitious housing program has been launched. There is more food and a greater variety of it, there is more clothing, and a start has been made in providing the people with household gadgets.

But the Soviet industrial plant, in spite of enormous expansion in recent decades, is still only about 60 per cent the size of that of the United States, although it must serve a population a third larger.

How can Premier Khrushchev meet his pledges to the Soviet people? How can he reach the grandiose goals he has set for surpassing the United States in meat, milk and butter production by 1965?

Mr. Salisbury answers these questions this way: "There is only one practical way in which it can be done. If the arms race can be tapered off, if vast segments of Soviet industrial and technological reserves can be freed from military uses and diverted to civilian purposes then, perhaps, Mr. Khrushchev might have a chance to make good his promises and meet the urgent needs of his people."

All right, just suppose now that the U. S. A., the U. S. S. R. and the other powers did sign and ratify a treaty for a reduction of armaments (total disarmament seems too much to expect): What would be the effect on the American economy? Would this country, as some fear, be forced into a violent transition that would throw millions out of work?

Officials of the Eisenhower Administration—including the President himself—have no fear of an industrial upheaval or a recession. They would almost certainly agree with an article in the October issue of *NATION'S BUSINESS* ("What Peace Would Do to You"), which foresaw these consequences of a sharply reduced military budget: lower taxes, a rise in consumer spending, a terrific upsurge in outlays for new plants and equipment, and larger incomes for everybody to spend and invest.

All things considered, including the fact that Red China is an outlaw nation that we will not deal with, the idea of arms reduction seems fantastic. Yet it is no more fantastic than what was witnessed at the White House in September—the leader of the free world and the No. 1 man of the communist world exchanging champagne toasts in the state dining room.

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The state of the nation

BY FELIX MORLEY

We're caught in Europe's trade rivalry

THIS IS A GOLDEN autumn for Western Europe. In spite of Berlin and other unsettled political issues, the wheels of industry are humming steadily in nearly all the 17 countries that constitute the Organization for European Economic Cooperation. Almost everywhere unemployment is low, personal savings are mounting, prices are steady and communism is at a severe discount. Unbroken weeks of beautiful weather have buoyed a general optimism inspired by fiscal and economic stability.

If Western Europe could be called the sum of its separate parts, as may properly be said of the United States, the picture would indeed be wholly pleasing. But if one seeks that objective of European unity—perhaps even outright political federation, which American diplomacy has endeavored to promote—then the horizon is clouded. For the Organization for European Economic Cooperation, despite the prosperity of individual members, is failing to build a single unified area with a common commercial program.

Two potentially hostile groupings, based on different commercial objectives, recently have been dividing Western Europe into rival camps. One of these groups is the Common Market, already established, of France, Italy, West Germany and the three Benelux countries: Belgium, The Netherlands and Luxembourg. The other group composes the developing Free Trade Association of Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom.

The basic reasons for these rival approaches to European unification are political. They are found, on the one hand, in the joint Franco-German realization that their past hatreds have been mutually suicidal and, on the other hand, in the British determination to remain isolated from continental Europe. The growing Franco-German unity and the undiminishing British separatism together go far to explain why the Common Market countries are thinking in terms of economic integration and their rivals in terms of free exchange among wholly independent sovereignties.

The divergency is, of course, of vital importance to every American who is directly or indirectly inter-

ested in foreign trade. It could become a question of whether our exporters are to deal with a closed or with an open market in Europe. And while reconciliation of the viewpoints is not impossible, and is certainly being sought, the fundamental cleavage runs deep. The steadily developing merger of the French



and German economies accords ill with the British conviction that this is not in the interest of their world-wide trade.

The very real recovery of France, under the leadership of General de Gaulle, is serving to emphasize the cleavage. Except for its immense African holdings, the French Empire is now a thing of the past. But these are a big exception and France, together with Belgium, is trying to maintain African possessions by merging them in the Common Market. Germany, Italy and The Netherlands, deprived of all their colonies, may thus obtain easier access to enormous raw material reserves in return for help in financing development, for which Germany at least now has substantial means.

What remains of Britain's far-flung empire cannot be thus consolidated. Moreover, London could not even hope to bring Canada and the other independent members of the Commonwealth into the European

TRENDS continued

Common Market, and, to preserve preferential trade relations with them, must—or so it is argued—stay outside.

On the other hand, the dim prospects for German reunification help to bind the Federal Republic into the Common Market. Chancellor Adenauer has been one of its foremost advocates because this membership, with so much territory lost to communism, seems the best way to insure continuance of West German prosperity. France welcomes the potent partnership of a chastened Germany reduced to a shadow of its former military strength.

The European Economic Community, to use the official term for the Common Market grouping, is based upon treaties drafted in 1955. It actually got under way, directed from headquarters in Brussels, on Jan. 1 of this year.

On that date the six participating governments took steps to make their currencies freely convertible, reduced their tariff schedules as between each other by 10 per cent, enlarged import quotas—wherever existing—within the group by 20 per cent. These quotas will be further enlarged on Jan. 1, 1960, and on July 1 of next year internal tariffs, within the Common Market, will be dropped by a further 10 per cent. Meantime the customs duties on imports from countries outside the union are being adjusted to a uniform scale, so that all imports going to any of the six will eventually be subjected to identical levies.

By 1970, if further scheduled steps are maintained, all trade restrictions among the six will have been eliminated. They will then form a single Common Market, as much so as any group of states within the American union. The significance of the development, now too advanced to be regarded as experimental, is emphasized by simultaneous collective action to coordinate the social security systems of the six, to consolidate the machinery of investment, and to permit unrestricted movement of labor across the now largely meaningless boundaries within this European Economic Community.

The proposed Free Trade Association of the outer seven European countries is neither so far along nor so ambitious politically as is the Common Market plan. The draft treaty embodying this second organization has indeed only just been worked out and will be submitted to the seven governments for formal approval this month. But the spade work, mostly British, has been thorough and ratifications of the new treaty are likely to come quickly.

Before the end of the coming year it is probable that two distinct commercial blocs will be not merely established but also functioning actively on wholly new lines in noncommunist Europe. The only countries there not yet definitely included in one or the other grouping are Greece and Turkey, which plan to be associated with the Common Market; Ireland and Finland, the first of which is expected to join the Free Trade Association, and Spain, currently receiving a cold shoulder.

From the viewpoint of American business it is

apparent that each of these new European commercial groupings offers advantages and disadvantages.

In the Common Market, once internal tariffs have been eliminated, French, Germans, Italians and Beneluxers will tend to buy from each other rather than to accept competitive American exports against which high duties will continue to be charged. On the other hand, the purchasing power of the unified area may be expected to show a pronounced increase and marketing procedures there will be greatly simplified by uniformity of the regulations heretofore determined separately by six different governments. To meet this developing situation, a considerable number of Amer-

UPI PHOTOS



France's de Gaulle and Germany's Adenauer are key figures in the Common Market group

ican firms are already establishing factories within the Common Market, and unifying their distribution agencies there when actual production within the area is not contemplated.

There will be no cause for any such realignment of operations in countries adhering to the projected Free Trade Association. These seven will not establish a common external tariff, but will agree gradually to eliminate all tariffs and quota restrictions among themselves.

But, as an illustration, if Sweden drops all duties on British manufactures, it will obviously narrow the Swedish market for competitive American exports. Such a situation, it is freely admitted, would bring strong pressure on the United States to eliminate tariffs against the seven as they are eliminated among the seven—or in effect to force the United States into the projected Free Trade Association. The plans of this still embryonic grouping run counter to the principle of the Most Favored Nation Clause, but not to the provisions of the General Agreement on Tariffs and Trade, to which the United States is a party.

The outstanding fact is that the division of Western Europe is something quite different from the overall unification that American commercial diplomacy has sought to forward, and that it raises new and very knotty problems for that diplomacy. They will be easier to solve if the Common Market and Free Trade movements can be unified and proposals to this end are still being discussed and explored. But, if this reconciliation is to be expected, there is no good explanation of why the present cleavage has already gone so far.

Brody gets his men!

1.



Al Brody was ambitious and it was his hopeful dream
To weld his up and coming men into a winning team.
But fast as they grew capable, they thwarted his intentions
By taking off to larger firms for benefits and pensions.

2.



"My company's a training school," poor Al was in a stew,
"We're oversmall to offer all the benefits. I'm through!"
His Travelers' man replied, "Not so! We have a plan so neat
A company with ten or more employees *can* compete!"

3.



"Group life and health insurance," itemized his trusty man,
"Major medical and pensions can be worked into a plan.
It's simple to administer, you use our handy kit—
Your geniuses are happy *and* the cost won't hurt a bit."

4.



Al smiled, "I'm *sold*, so sign me up. I'll notify my staff."
Now Brody has a winning team and sales are off the graph.
If you have over ten employees*, quickly check this plan.
It can be fitted to your needs by your own Travelers' man.

*Minimum of 15 required in Florida.



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and watch her work output rise!

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GENERAL FIREPROOFING

METAL BUSINESS FURNITURE

Where unions go from here

Spurred by 1959's reform legislation, labor will seek these new objectives

ORGANIZED LABOR is on the verge of its greatest change since the industrial unions split off from the American Federation of Labor to unionize the mass production industries.

Just as happened almost 25 years ago, the change will alter the character of unions as well as their relations with employers, employees and the public.

The new Labor-Management Reporting and Disclosure Act forces unions to become more responsible and to conform to approved union practices. While meeting these requirements, however, unions will seek more influence, authority and control over their destiny through more effective political action.

To the extent that unions succeed in increasing their influence, the influence of management is likely to diminish.

Here is a size-up of the situation and outlook, considered from four major areas of union activity:

- Internal union management.
- Political activity.
- Organizing.
- Collective bargaining.

Inside labor

THE FEUDING: Despite proclaimed unity, old rivalries persist between unions and union leaders.

Among the leaders, the friction is most evident at the top. The feeling between AFL-CIO President George Meany and Walter P. Reuther, president of the United Automobile Workers, was never worse than at the recent AFL-CIO convention in San Fran-

cisco. Even so, Mr. Meany and Mr. Reuther have this in common: They are both highly critical of James R. Hoffa, head of the world's largest union, the 1.6 million-member International Brotherhood of Teamsters. Mr. Hoffa, in turn, spares no criticism of Mr. Meany and Mr. Reuther and the AFL-CIO, from which the Teamsters were expelled two years ago on charges of being under corrupt influences.

Bad feeling also continues between Mr. Meany and Mr. Reuther, who dominate the AFL-CIO, and the dean of union leaders, John L. Lewis, who formed the CIO. Mr. Lewis has pulled his United Mine Workers out of the AFL twice and the CIO once. The *UMW Journal* often reflects Mr. Lewis's low opinion of the AFL-CIO by using lower-case letters—*afl-cio*—when referring to it.

George Meany, key man in the AFL and CIO merger of Dec. 5, 1955, is still the strong man of the merged organization and is recognized as the top leader of the American labor movement. His ability to effect compromise between feuding factions has kept, and in the foreseeable future will probably continue to keep, the AFL-CIO's 135 unions and their leaders together despite the heavy strains of internal conflicts and problems.

Chances of keeping the AFL-CIO intact will increase as outside pressures grow and interunion rivalries diminish. The AFL-CIO affiliates have agreed to set up new machinery for compulsory settlement of jurisdictional disputes. A plan is expected to be approved and to become operative next year.

The threat to Mr. Meany's leadership comes, not



WIDE WORLD

Outside forces counteract . . .

Rep. Phil M. Landrum of Georgia (left) and Rep. Robert P. Griffin of Michigan sponsored the new labor reform law, which more than any other one thing will force unions to change their mode of operation and will tend to unify the labor movement

from Mr. Hoffa or Mr. Lewis, but from the ambitious Mr. Reuther.

Walter Reuther sacrificed his presidency of the CIO in the merger agreement, and is biding his time to take Mr. Meany's place when it becomes available. The two disagree on both union and political philosophies. The UAW president, a former Socialist Party member, would push the AFL-CIO further to the left and deeper into Democratic Party politics.

The chances of Mr. Reuther becoming the next president of the AFL-CIO are slim. He is a controversial figure and most of the former AFL leaders and some of his former CIO associates would oppose him.

Meanwhile, Mr. Reuther is trying to build up the AFL-CIO's Industrial Union Department, of which he is president, to help promote some of his ideas for use as pressure weapons within the AFL-CIO.

The Department has 68 unions with seven million members, including all of the 30 unions from the old CIO. It duplicates most of the services performed by the AFL-CIO. The Department will hold its own con-

vention in Washington early this month. On the surface, it appears that Mr. Reuther might easily pull the Department out of AFL-CIO and restore the separate CIO organization, but this is easier said than done. There is little prospect that Mr. Reuther will attempt or even consider such a step.

The outlook is for the AFL-CIO to hold together, with a diminishing of the interunion rivalries, although Mr. Reuther will try harder to mold the organization to his way of thinking.

THE REFORM: A big change in union management is being forced by the new labor reform law. For the first time, the federal government is concerning itself with the internal operations of unions.

Unions must conform to approved practices, report their financial operations to the government, and be more responsive to the needs and wishes of their members.

This will be a new experience for many unions and union leaders. It will likely diminish the abuse of



MERKLE PRESS



NATE FINE

... new tensions in AFL-CIO

AFL-CIO President George Meany is still in firm control of the merged labor organization. He will keep it from splitting apart despite increased friction with former CIO unions, which want him to be more militant

Walter P. Reuther is unhappy with Mr. Meany's leadership, but will not cause new split now. He builds up his Industrial Union Department and tries to reshape AFL-CIO while waiting to succeed Mr. Meany

union power in dealing with union members, with prospective members and with employers.

Political activity

Union political activity will be stepped up, with election next year of a President friendly to organized labor as the main goal.

The Landrum-Griffin labor reform bill would not have passed, unionists insist, if a union "friend" had been in the White House. He would not have supported the bill openly, as President Eisenhower did. Had it passed he would have vetoed it and made the veto stick, the unionists say.

Election of Democrats is not enough, unionists are now convinced. Even the party leaders in Congress, who are from the South, are accused of failing to deliver the goods when it counted. Look for a shift in the direction of Samuel Gompers' philosophy of "elect your friends and defeat your enemies," without regard for party label.

Unions will rely more and more on protecting their

economic gains and winning new objectives through political action. Mr. Meany has said unions must become as effective in political action as they have been in the economic field.

The biennial AFL-CIO convention may be shifted from odd to even years and thus become a greater factor in election campaigns. A special convention will be held probably before the next elections.

Organizing

Signing up union members has been a tough job over the past two years. Union growth has not kept up with the growth in the labor force. Membership of AFL-CIO has, in fact, dropped over the past two years by 80,000, from 12,751,000 to 12,671,000.

Unions blame three factors:

The McClellan Committee disclosures of corruption and racketeering in some unions, the 1958 recession, and the integration fight in the South.

Union organizers expect to be further hampered by the new labor law, (continued on page 104)

HOW TO BUILD A

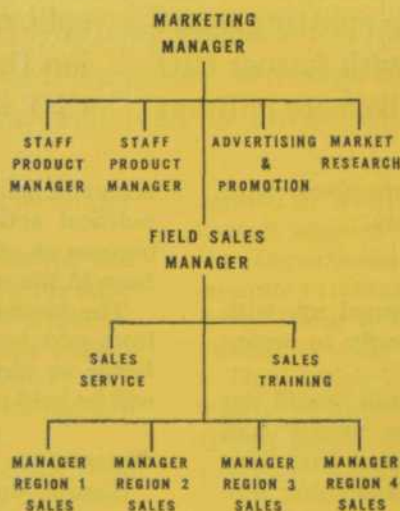


1. MANAGE YOUR SELLING EFFORT

Don't concentrate on selling and neglect planning, organizing and controlling

2. ORGANIZE MARKETING TO MEET COMPANY OBJECTIVES

No plan will fit every company, but here's one company's setup



3. GET PRODUCT SALES BALANCE THROUGH PRODUCT MANAGERS

The more diverse the product line, the more likelihood salesmen will push a few pet items

WINNING SALES TEAM

Four principles can lead you
to more successful marketing



4. MAKE YOUR SALESMEN BUSINESS MANAGERS

*Give a salesman authority
to decide how to attain
his sales objectives*

A WELL BALANCED marketing team is your best guarantee of more profitable sales.

Building such a team is not an easy job. It requires the integrating of a wide variety of company activities and the efforts of many people.

But, while difficult, the task is far from hopeless. Many companies have proved that it can be done, and from their successful experience four key working principles can be isolated. These principles clearly demonstrate how to:

- ▶ Manage your selling effort.
- ▶ Organize marketing to accomplish company objectives.
- ▶ Get product push by use of product managers.
- ▶ Make your salesmen business managers.

Manage your selling effort

The first question in examining the present status of the marketing concept is: "Why has selling, instead of marketing, held the dominant place until recently?" If we can find the answer, we will know why many old-line sales managers still tend to concentrate on personal selling and supervision. We will also know why it is so difficult for many companies to break old habit patterns and orient themselves to the new marketing approach.

We can find the bedrock reason in the principle of marketing emphasis: "A manager who is required both to sell and to manage selling will tend to concentrate on selling and neglect managing." Keep in mind that managing refers to planning, organizing and controlling, as well as leading, the sales effort. In large part, managing is a mental activity. It takes a lot of thinking, relatively little personal operation. The plain fact is that most people prefer to do things, not think about them. As a result, when top managers are called upon to be both salesmen and marketing managers,

management gets the short end of the stick.

This is why the marketing concept developed in the first place. Over the long term, competitive selling most often falls behind because sales managers fail to forecast, develop policy, program, budget, establish performance standards, and otherwise manage selling.

How can we make sure that both selling and management of selling will be handled effectively? First we must recognize that, in most companies, managing the marketing effort is more than a one-man job. In the past, field sales, advertising, and market research were often split into separate functions because few men had the physical and mental capacity to handle all three. Yet many companies completely overlook this today when they forcibly unite all marketing functions and boost the sales manager to the top marketing position.

The principle of marketing emphasis enables us to foretell the result—the new marketing head continues to act as a sales supervisor and personal salesman and little real marketing takes place.

Typical is the attitude of the marketing vice president of one eastern food company. He spends more than 80 per cent of his time touring, that is, working with district managers and salesmen in the territories.

"Sales are made in the field, not in the office," this executive emphasizes.

An administrative assistant manages the sales effort four days out of five. Sales have kept pace with expanding markets, but profits are down noticeably. What is more, the company has fallen into a "me too" position on an important product innovation which its two chief competitors have already introduced.

Equally narrow and inadequate is the viewpoint of the top marketer who continues to believe that the first task of every man on the mar-

(continued on page 86)

LET'S TAKE THE BRAKES OFF GROWTH

Today's conditions require bringing old laws, practices and institutions up to date

ECONOMIC MACHINERY developed to speed our growth in the past now threatens to put a damper on advancement in the 1960's.

To counter this threat, adjustments are needed in the practices, laws and institutions that make up this economic machinery so it will keep abreast of the changing business environment.

Among the factors that comprise this machinery and that could be a burden on future growth are:

- ▶ Labor-management relations
- ▶ Social security law and practices
- ▶ Regulatory bodies
- ▶ Money and credit control
- ▶ Metropolitan government
- ▶ Taxation

Others could be named but these will serve as examples.

The failure of our economic machinery has had serious effects in the past. What might have been a relatively minor setback in 1929 turned into a deep and protracted depression. Today we could handle problems we did not handle in 1929. But this does not mean that the devices established to deal with those problems would meet today's serious needs any better than our 1929 institutions, practices and laws handled the needs of that day.

The machinery seems always to lag behind the economy. That is to be expected. The machinery lags, in part, because it is nobody's business, or at best, somebody else's business. Business firms keep abreast or fall out. But economic institutions can keep on going in the good old-fashioned way whether they work well or not because there are few automatic devices, such as the profit system, to make them change. Recognized and enforceable standards of the suitability of the economic machinery are few.

That was no great handicap when society was relatively static. As a matter of fact, in those days stability of the economic machinery added to general well-being. It gave a sense of belonging to the community, and a sense of security to the individual,

which was a help both to the individual and to the state. But now that change is rapid, machinery adapted to the environment of 30 years ago may prove a serious drag.

Let's look at a few of these outmoded institutions and practices:

Labor relations

Labor-management relations are important to the economy, to say nothing of being important to labor and management. But they are not operating satisfactorily because we still use the basic system which developed during depression and war times.

Then it was important to prevent cost cutting through payment of substandard wages. That gave unscrupulous companies an advantage and depressed living standards. It was important that labor be able to defend its rights.

After the war, when management was able to sell at a price sufficient to cover whatever labor costs might be, there seemed to be no urgent need to modify the methods inherited from the depression. But now we have a high-employment economy in which both consumers and producers are relatively well supplied with inventories. Both workers and management have high incomes but neither has to buy.

Neither may buy unless he gets what he wants at a price he is willing to pay. If labor is able to get a wage which forces prices up, consumers will shift their favors to the goods which they believe give them the best value. If houses go up in price more than families believe is justified, consumers may shift their purchases to automobiles. If autos go up more than consumers will accept, they may shift to motor boats. Purchasers are not at the mercy of producers or distributors. So the management that grants the demands of labor that mean increased prices risks reduced sales and lower employment.

On the other hand, labor has a long history of continued wage increases. These increases have come to be accepted as a right, irrespective of what happens to productivity. In addition, (*continued on page 96*)

let's re-examine:



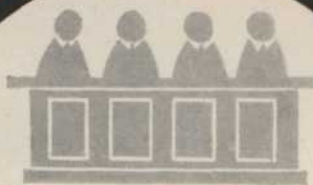
LABOR-MANAGEMENT RELATIONS

Labor expects more wages,
bringing high prices
and lower sales



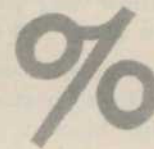
SOCIAL SECURITY

Laws discourage elderly
from working when
they're needed



REGULATORY BODIES

Overregulation restricts
management efficiency,
competition



MONEY AND CREDIT CONTROL

Controls haven't kept
abreast of economic
changes



METROPOLITAN GOVERNMENT

Complex urban services
need technical
handling



TAXATION

New sources are being
exhausted, old sources
overburdened

TRADE TENSION FOR CREATIVITY

Fresh health concept points way
to a happier life for executives

A Nation's Business interview
with **Dr. Halbert L. Dunn**,
Chief of the National Office
of Vital Statistics,
U. S. Public Health Service



LACK OF BALANCE in the way we live and work is at the root of many of the tensions which beset businessmen today.

This opinion is expressed by Dr. Halbert L. Dunn, physician and long-time chief of the National Office of Vital Statistics, in an interview by NATION'S BUSINESS.

Most of us have a negative orientation, which focuses on freedom from undesirable conditions rather than on positive goals, Dr. Dunn says. This can lead to a desire to maintain the status quo rather than to move ahead. In business, this favors patterns of conformity that stifle imaginative thinking.

By correlating vital statistics with social, psychological and economic data, Dr. Dunn is seeking a yardstick with which to measure the degree of health of individuals and organizations.

The project has been endorsed by hundreds of physicians, health officials, psychiatrists, and educators all over the world.

Dr. Dunn is former chief of the Mayo Clinic Department of Statistics and once served as director of the University of Minnesota Hospital.

Dr. Dunn has some suggestions which will prove helpful to businessmen. Here is what he told NATION'S BUSINESS.

Dr. Dunn, you have developed some interesting new approaches to what you call "wellness." Can you tell us about these ideas?

Over the years I have come to realize that being well is more than just not being sick—that getting to be well is a way of living that people can move to-

“

The way a man lives
in his 40's may well
determine his mor-
tality 10 years later

”

ward only by taking positive steps. It's not enough merely to avoid poor health or sickness.

What led you to this conclusion?

My professional experience, combined with the fact that for many years I have been interested in the way organizations are run. A further factor is the changes in our patterns of living over the past 50 or 60 years.

The facts I shall cite are well known to all my colleagues. The conclusions I draw from these facts have awakened a lot of interest, but I present them only as my own. In particular, they do not reflect the views of the Public Health Service.

On the factual side, over the past 60 years the country's disease picture has altered drastically. So has the attack on disease. In 1900, more than half our deaths were due to influenza, pneumonia, tuberculosis, and gastroenteritis. Today, these diseases account for only about one death in 25.

More than half of our present deaths are due to heart conditions or to cancer and other malignant growths. In 1900, these causes accounted for only about one death in five. To put the contrast briefly, most of our deaths formerly occurred when the body was invaded by foreign organisms. Today most of our deaths occur when the body, or some body part, goes haywire.

So the attack on disease also has changed?

Yes. We now devote a great deal of effort to alleviating chronic conditions which, as they are usually approached, must largely be allowed to take their

course. For the most part, we merely try to slow them up.

You think that doesn't go far enough?

That's right. But to go further you must draw an important conclusion from the facts. I think everyone would agree that it would be desirable to treat chronic conditions earlier. But how can these conditions be identified before acknowledged medical symptoms show up?

What can you point to as tending to produce heart disease and other organic conditions, in the same sense that the presence of viruses tends to produce an infectious disease? I conclude that the chronic diseases are rooted in the way we live. To prevent or postpone their appearance in later life, we must learn how to live differently in middle life, and even before. The way a man lives in his 40's may well determine his mortality 10 years later.

How do you apply your wellness theory to the questions raised by the study of vital statistics?

Major changes have taken place in our society in the past 100 years or so. It is definitely a shrinking world. It is also a world filled with restless striving. Everybody is trying to gain a higher standard of living. People are ambitious, both as individuals and as members of groups. They expect more than did their ancestors. Practically everyone feels the urge toward better living whereas formerly this characterized only certain sectors of the population and could be realized only by a few. It is *(continued on page 44)*

“

Instead of a seven-
day week, your busi-
ness needs the most
high-peak hours you
can give it

”

FEATHERBEDDING HURTS YOU

All companies have a big stake in the issue of unnecessary work and unneeded workers

FEATHERBEDDING'S great and growing annual cost must be borne in some part by all Americans—consumers, workers, management, stockholders and government.

Recognition of this fact is spreading in industry and in other segments of our society. As the awareness grows, responsible business leaders are redoubling their efforts to end the evils of featherbedding and make-work rules.

These efforts are being spurred by the cost consciousness created during the 1957-58 recession, by competitive pressures to hold down costs, and by a tougher approach to collective bargaining. Management also is seeking to eliminate or modify rules that limit its area for making decisions.

The problem is different in the mass-production industries than in those organized along craft lines. In such industries as printing, building, motion pictures, theaters, and railroads—in which craft unions predominate—the problem is the large number of rules introduced to make jobs or to prevent adoption of more efficient methods of production.

In mass-production industries such as steel, in the words of R. Conrad Cooper of United States Steel Corporation, the problem is "wasteful practices that have grown up over the years—not featherbedding or make-work practices deliberately installed."

Make-work rules often are designed to protect the jobs of union members when technology or other factors dictate a decline in the demand for their services. This is well illustrated by the various restrictions which limit the productivity of painters.

The use of the spray gun, for example, would make possible a more efficient as well as more rapid completion of a paint job than the use of a four-inch brush. Nevertheless, in an attempt to make jobs for

painters, restrictions have been placed on the use of spray guns. As a result, the cost of painting has risen. Homes are repainted much less frequently than would otherwise be the case. The available jobs have been spread out for the existing work force, but the number of total job opportunities has been curtailed.

Featherbedding and make-work rules often were developed for what appeared to be sound business reasons. Thus they may have been introduced as safety devices or to provide an incentive for more efficient production. With the passage of time and with developments in new technology, such work rules often become obsolete. However, unions are loath to give them up on the ground that keeping them results in additional jobs for their members.

An interesting illustration is found in the dual basis of pay for railroad operating crafts. An engineer in passenger service receives a day's pay when he has traveled 100 miles, or worked five hours, whichever goal is reached first. The rules defining a "basic day" were last modified around the time of World War I. This system of compensation was first introduced as an incentive to engineers to operate the trains more quickly and efficiently. Forty years ago 100 miles was about a day's work. Modern railroad technology has increased the speed of trains considerably. The old rule, therefore, has become obsolete. Its main effect has been a substantial increase in the amount of leisure time of railroad operating employees and the payment of a full day's wages for only part of a day's work.

Featherbedding and make-work rules are economically unsound for a number of reasons:

- ▶ They hold down productivity.
- ▶ They add to costs.
- ▶ They impede the mobility of labor.



MAKE-WORK AND FEATHERBEDDING
hold down productivity . . .

add to costs . . .

impede worker mobility . . .

create barrier to new
capital investment

- They create a barrier to new capital investment.
- They involve an uneconomic use of resources.

The bill for featherbedding must be paid. Consumers, workers, stockholders and government each must pay some part of it. The distribution of the cost will vary among industries and under different circumstances. But the tab must be picked up by somebody.

Productivity

The key to the American production miracle and to our high level of living is found in the cumulative rise in output per man-hour. One of the evils of featherbedding and make-work practices is that they adversely affect the rate of output per man-hour. This is inevitable since output per man-hour is determined by relating the number of hours worked or paid for to the total output.

The major effect of featherbedding is to increase the number of hours paid for. Whenever superfluous workers are hired or retained, the denominator of the output per man-hour equation is increased and the rate of gain is decreased.

Further increases in the rate of output per man-hour would mean a higher rate of economic growth. This, in turn, would mean increases in the total volume of goods and services produced, greater rises in levels of living, and an increase in our national strength. Alternatively, it would make possible the production of the same or a larger quantity of goods and services with fewer hours of work and hence set the stage for more leisure time.

The elimination of featherbedding, therefore, would mean further progress in line with national goals. One price we pay for featherbedding is slower economic growth.

Costs

The chief task of industry is to produce goods and services. Companies are organized to produce or to render services and to make profits from their operations. In contrast, featherbedders assume that the main task of industry is to provide jobs. The decision to employ workers is made by considering cost-price relationships. The more favorable the relationship, the larger the number of jobs that will be created. Since featherbedding increases costs, it is not favorable to an expansion in the number of jobs.

The impact of featherbedding on costs depends upon how widespread the practice is and the relative size of labor costs. In industries where labor costs constitute a

(continued on page 79)

HOW'S BUSINESS?

today's outlook

AGRICULTURE

Total farm output for 1959 will be higher than last year, but it will produce less income for farmers.

While total crop output hovers near last year's phenomenal record, marketings of livestock and poultry will be greater. The sharp increase in cattle numbers will provide for increased slaughter this year as well as for herd expansion. The U. S. Department of Agriculture expects nine per cent more hogs and a marked increase in the production of eggs, broilers and turkeys.

The annual rate of net farm income for the first three quarters of 1959 fell 12 per cent below a year ago to an estimated \$11.5 billion. Heavy fall marketings of hogs, corn and cotton may reduce this gap to seven or eight per cent by the year's end.

Reduced farm income is due primarily to termination of the acreage reserve payments, smaller crops of wheat and small feed grains, substantially lower prices for hogs, eggs and broilers and higher prices for farm machinery and motor vehicles.

CONSTRUCTION

The regional distribution of residential construction activity in 1959 is continuing in patterns observed in recent years.

Of all building permits issued for new dwelling units in the United States, 31 per cent are attributed to the 11 states of the western region, 29 per cent to 16 southern states and

the District of Columbia, 21 per cent to the 12 states of the north central region, and 19 per cent to the New England and Middle Atlantic states.

Valuation of new dwelling units follows a similar distribution, with 29 per cent attributed to the western region, 26 per cent to the southern region, 25 per cent to the north central, and 20 per cent to the northeast.

These distributions reflect the continuing improvement of the economic status of large segments of our population and accompanying moves toward and within urban areas.

CREDIT & FINANCE

Financial management men are predicting: a stabilized dollar, less world tension and a possible relaxation of labor-management disputes in 1960. Generally they show a good deal of confidence in the short-run future.

Bankers expect money demands to continue strong.

Federal, state and local governments, business and consumers are all showing strong demands for money and credit.

Several recent surveys have indicated that business capital demands for expansion and modernization will total more than \$100 billion in the next three years.

The growing competition for funds will cause interest rates on borrowed money to go up. This, in turn, will stimulate savings and help allocate capital to the various users.

Congress will also need to come to

grips with the problem of interest rates when it returns in January. Higher allowable rates on long-term government bonds will be a major consideration and an anti-inflation must.

DISTRIBUTION

Despite the steel strike's impact in certain areas, sales figures in the distributive trades still range from three to 21 per cent over year-ago levels.

Retailers and wholesalers are optimistic about the final-quarter outlook. In fact, many predict continued sales records in 1960. High consumer incomes are still rising, and the time-buying spurt gives no sign of letting up.

The general profit outlook is good throughout the retail and wholesale trades, although not as bright as that for sales. However, two recent reports point out problems in specific areas.

One, from Harvard, says that the retail food chain industry may be headed for a profit squeeze. In recent years, both sales and gross margin have risen along with consumer spending. However, expenses—particularly wages—were going up even faster.

A University of Michigan study shows that department stores in the \$5 million-and-under volume classification have made practically no progress in the past 30 years on their profit ratio. Again, sales and gross margins are up—but operating expenses have gone up, too.



FOREIGN TRADE

"If you want to live in peace with us you must trade with us."

This remark by Mr. Khrushchev on his recent visit to the United States was directed at controls on U. S. trade with the Soviet Union. Relaxation of such controls by our government, however, will depend on settlement of Russia's lend-lease account with the United States.

Even under the best of circumstances, no dramatic expansion of U. S.-Soviet trade is expected. The Russians might supply various minerals and forest products at prices below those we now pay to other suppliers. But would it be wise to risk alienating present sources of supply?

Nor is it clear what the Russians really want to buy from us. Although Premier Khrushchev talked of buying consumer goods from the United States, it is apparent that he really wants capital goods. The hazard in this trade is the disclosure, without adequate patent protection, of know-how developed by American companies.

U. S. exports to the U.S.S.R. for the first three months of 1959 totaled \$2.4 million, mostly in carbon steel sheets. For the same period, the United States bought \$9.6 million from the U.S.S.R.—mostly furs, chrome, platinum and benzene.

GOVERNMENT SPENDING

This will be a big month for the budget-makers. Hearings on the fiscal 1961 budget are under way before the Bureau of the Budget, and some hard choices must be made. Pressures for more funds for space research and an expanded health, education and welfare program are expected to be especially heavy. Defense, agriculture and veterans' programs also will continue to be among the prime claimants for federal tax money.

Estimating interest on the debt will pose a real problem in view of Congress' laxity in the past session in dealing with interest rate ceilings. The amount of interest can vary considerably, depending upon congressional action, but it will almost certainly be above the \$9 billion figure estimated for this year.

Interest, national security and other built-in cost programs now ac-

count for about 80 per cent of the budget and admit of little or no discretion by the President in presenting his recommendations to Congress. Continuation of this situation will make it increasingly difficult in future years for the government to meet its responsibilities and maintain sound financial policies.

LABOR

In the days immediately ahead, the Department of Labor and the NLRB will be devoting much attention to the ground rules which will govern the administration of the Landrum-Griffin labor reform law.

The Department of Labor will receive a variety of reports required under the law while the Board will be charged with administering amendments to the Taft-Hartley Act in the boycott and picketing fields.

Consultations with employer groups on proposed regulations, report forms, and scope of administration of the law have been solicited by the Department and by the Board.

Although not legally required, such consultations provide opportunities for business groups to make known their views on administration of the new law.

Its administration will determine the extent of its effectiveness in achieving its basic purpose of eliminating some of the evil practices in the labor-management field revealed by the McClellan Committee hearings.

NATURAL RESOURCES

The domestic minerals and petroleum industries seem to be winning their fight against a proposed annual Census Bureau survey of the mineral industries which would have required many man-hours of work and considerable expense.

The U. S. Bureau of Mines has for many years been collecting and publishing statistics on the production, sales, distribution, exports and imports of minerals, including solid fuels and oil and gas, on an individual-commodity basis. Returns of its questionnaires, while voluntary, are high, and the figures are widely used.

In recent years the Census Bureau has been conducting a five-year census of the mineral industries.

The Bureau has proposed to conduct this survey annually, but has been opposed by the industry-supported Advisory Council on Federal Reports. One mining company representative pointed out that his firm is now filing some 350 federal forms each year. He estimated that the proposed new survey would cost the mining industry several million dollars a year.

TAXATION

State tax commissioners quickly seized an opportunity to tell tax officials of leading firms that they intended to challenge the constitutionality of the recently passed law limiting the powers of the states to tax income from interstate commerce.

Indicated prime target of the assault is the prohibition against retroactive billing for back taxes which would have been permitted under prior law—at least within a three-year limitation.

Second target will be the definition of what constitutes an "office" for state tax purposes.

Greatest fear expressed was that Congress might consider this law a precedent for development of a mandatory formula for apportionment or allocation of taxable income. This the states have been attempting to do for themselves, but with a notable absence of success.

One spokesman for the states said, "There's a great likelihood Congress will take action first if the corporations and states don't soon get together."

TRANSPORTATION

During the next 10 to 15 years, American-flag steamship operators plan to replace their aging ships with up-to-the-minute vessels, incorporating improvements in service, safety, and economy of operation. Some 300 vessels are involved.

Called the largest shipbuilding effort in peacetime history, one significant effect will be the impact of the program on the nation's financial institutions.

With the total cost of the program being estimated at about \$3.5 billion, the steamship companies indicate that they will seek money for new vessels from private sources in unprecedented amounts.

also an older world, because we are saving lives through triumphs over infectious diseases and other threats to infancy. People now live longer.

Another factor has become apparent in the past century: It is a world of mounting tensions. Every year, the tensions are increasing, not only internationally but inside the daily patterns of living. I think practically all experts would agree that some of the chronic illnesses, such as mental diseases and cardiac diseases, are largely influenced by these tensions.

In addition, our values have been changing under the impact of science and changing life conditions. More of us are in positions of influence and power and want to keep

things as they are. So many of us have so many material things and are so self-centered that we are perfectly willing to accept the status quo. Largely, we would be content to enjoy life. Certainly this great change in values contains much that deserves analysis; obviously the consequences are not all good or all bad.

What conclusions do you draw from these social changes?

I draw two conclusions which tend to produce a single unfavorable result. This result can be counteracted by a suitable reorientation of our efforts, however. First, the new conditions under which we live favor instability and rapid change, not only in the way we live but in the way we think and feel. Second, because the need for change is so insistent, we earnestly desire security.

As a result, our lives are subjected, I think, to psychological and to physiological pushing and pulling. We are subjected to what Dr. Hans Selye calls the stress syndrome.

Can you expand on that?

It's really simple. When an organism—say a laboratory rat or rabbit or a man engaged in ordinary living—is threatened in some way, as by a disease, a hurt, or a danger, in addition to responses that are specific to the particular threat, the organism undergoes responses that are common to the threat situation as such. This is the stress syndrome, or sequence of symptoms due to stress. Temperature rises, blood vessels constrict, the heart pounds or goes slack, apprehension is displayed, movement may fluctuate between spasm and inertia. If the threat is long-continued and severe, ulcers are induced, the heart is damaged, and perhaps even coma and death may ensue.

You feel, then, that the conditions of modern living induce stress patterns in the population as a whole, and that these patterns gain some degree of expression in the statistical data concerning death and sickness?

Precisely. This is theory and needs much in the way of criticism and development, but it is not just a leap in the dark.

As I see it, a person is well in the degree that he is able to deal with his intrinsic life stresses. But we need to be careful here. For example, it isn't easy to ignore or suppress a stress. To do so may require a kind of fixed stance which is itself stressful. Up to some varying level, depending on the individual and circumstances, stresses can be accepted and a certain degree of stress can be invigorating. There is need here for balance in living—a balance not only between stress and its absence but also between other basic human needs.

What are some of these human needs that must be kept in balance?

First of all, you have the basic survival needs. A person has to have enough food of the right kind.

A second human need is to protect the organism from the thousands of things that can destroy it.

A third human need is to communicate with others and with the world at large. A person who can't disclose his inner thoughts is unduly subjected to stress, which can easily show itself in his degree of

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TENSION

continued

wellness and may even be reflected in whether he will die early or late in life.

I won't try to enumerate all the needs that might be identified. I do want to name a few others, however, that may be received quizzically.

I think all human beings need to cultivate imagination through creative expression, and I think that all human beings need to express love and altruism. We think of imagination, love, and altruism as luxuries, suitable at best for only the occasional peaks of living, whereas they should flow through all living. I think these qualities form part of the core of wellness that patient research will some day disclose.

It is built into us to be imaginative, but our whole conformity pattern tends to remove imagination. In our whole business structure of leadership we are caught in an increasing amount of organization lore. This is the way we do things. There is more conformity. Yet there is a tremendous release of tension when you can express your imagination. Organizations need the imaginative touch from their top people. But we tend to beat it out of our top executives—in fact, out of all our people—because we think it is better to go along like the other fellow.

You believe that a person's health actually improves in the fullness of imaginative expression?

There is no question in my mind that it is an essential part of being dynamically well.

A top manager would need, then, at least one person in whom he can really confide?

Yes. That is a part of human fellowship—something nobody can be without. You can't insulate yourself, and you have to grow. By growth I don't mean just physical growth, I mean mental and spiritual growth, too. You must also have relaxation, play and fun, and humor. You can't focus energy on problems all the time and hold it there.

Are all these needs geared into the body structure and the body physiology?

Yes. I have been interested, for instance, in medical experiments on how people relax. The tensions of living are built into the muscles, by and large. Muscle tension patterns allow us to learn how to walk and talk and everything else that we do

automatically. We build these reaction patterns into our muscles. But the interesting thing is this: Anything that comes along in our daily life, even much later, can stir up the sleeping memories that are recorded in muscle tensions and re-exercise those stored tensions. We call these emotional responses.

If you store hate, fear, prejudice and frustration in the muscle patterns, then months or years afterwards, even when you seem to be entirely relaxed, situations can come up that will carry you back and make you experience those early tensions all over again. In the meantime, the patterns are probably racing round and round in the organism, though below the level of awareness. Thus does tension exert its wear-and-tear effects on your arteries and your heart.

We need well communities no less than well individuals. Without well communities, how can we have well families? So I would insist that one of the logical ways of dealing with stress is to find ways of removing it from our social and natural environment when its presence disturbs the balance of living.

You began by saying that one of the paths leading you to your wellness views grew out of your interest in the way organizations are run. Would you elaborate on that?

I am no authority on business, but I am generalizing from my experience in running organizations of several hundred people over about 40 years.

I would say that the supervisor is often caught between trying to get people to do things and trying to satisfy demands from the top. There's nothing intrinsically wrong in that, but frequently he is held responsible for something without being given authority to act.

In my opinion, a pattern of organization can be developed which tends to decentralize responsibility and authority to successive layers, to produce coordination, and at the same time to stimulate the imaginations of people lower down in the organization and bring their ideas into the affairs of the business.

Are you saying that if you want to be a well executive and want others in your organization to be well you should not overcentralize control?

That is right. You can centralize policy making, but it is not sound to overcentralize administration. I would like to echo a view expressed

(continued on page 50)



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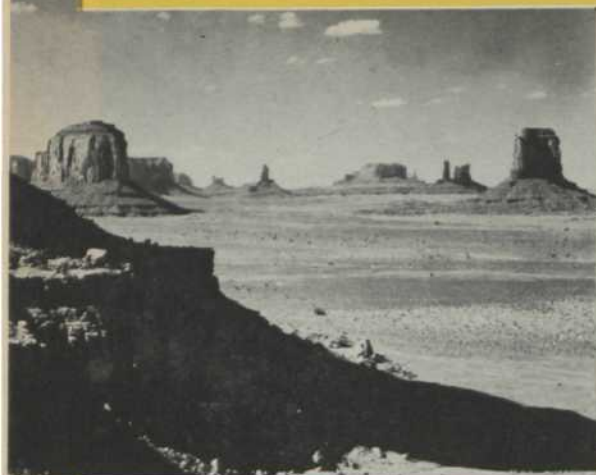
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TENSION

continued

by Merle Tuve, of the Massachusetts Institute of Technology, who holds that the following criteria can be used to identify organizational policies which foster individual freedom: First, the individual is expected to communicate his honest convictions regarding actions or goals of the organized group in which he is a participant; second, these communications are received with respect and given due weight, after correspondingly honest and critical evaluation.

I think these fundamental principles are necessary to an organization, whatever its nature.

Are you advocating democratic or participative management?

I don't advocate voting in managing, if that is what you mean by participation. I do mean, however, that the individual within the organization needs to be able to put in his two cents' worth and have it recognized before decisions are made. That brings dignity back into the job. Without job dignity, why should a worker feel any sense of loyalty to the business?

Is our concern for security a factor working against wellness?

Let me put it this way. Adventure is never secure. On the other hand, you must have some security. There should be a balance. If you get over-emphasis on one or the other, it is difficult to be dynamically at your highest potential.

What are some of the unfavorable manifestations of security-consciousness?

I think we must look at the positive side, at what makes us well. What makes us dynamically well is neither security nor adventure taken alone, but keeping a balance between the things that are vital to the nature of every person.

Since none of us can live outside of organizations any more, we must find ways, within organizational structures, for the personal ego to find its satisfaction as a part of the structure. This naturally involves much more than responsiveness to ideas and much more than providing both security and adventure. It involves, for example, providing opportunities for creative expression, altruism, and love.

What can an organization do to further wellness?

One thing is a readjustment of re-

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retirement policies. I think they are out of line with reality, because nobody can drop out of life at a certain fixed age—no matter how comfortable you make his life—and, at the same time, enjoy high-level wellness.

The older person must have a continuing opportunity and purpose to give his life meaning. He must feel dignity in that purpose. I think we are losing our greatest single national asset in not cultivating this potential.

Would you recommend any particular things that a business organization could do to avoid the bad effects of retirement?

A lot of our retirement policies originated in depression. We need to re-examine these policies to fit current needs and conditions. For instance, we should see how fully we can get people into at least part-time activities that will make them useful. This means we ought to challenge some of our basic attitudes on pensions.

Would you favor a flexible retirement approach where men were retired, irrespective of their ages, at the time that would be best for them?

I think that is one possibility.

Here is another potential solution. As you get older, your metabolism slows down and you need a somewhat safer environment. I think the real role of most of the older people would be to find a valued place within the community structure. Communities could really come to depend upon the activities and wisdom of our older people.

What about using retired executives on a consultant basis?

I think that's fine, but it is just a small fraction of the total. The great masses of people will have to find other types of outlet. I think my feelings can be summarized by defining what high-level wellness means to me.

I am not just talking about the absence of sickness, but rather whether the individual is oriented toward living so that his functioning approaches the full potential of which he is capable. This will vary

with individual environment, but environment can be changed. He can always do something to better it.

That is what freedom really means for the individual. As we move toward high-level wellness, my guess is that there will be an enormous increase in the potential and ability of people to do all sorts of things.

To what extent is the drive to get ahead, the personal competition in a business, a factor working toward unwellness?

Competition is all right, in my opinion, but it can be abused. Underhanded and unethical methods react severely on any person of ordinary sensitivity, producing harmful tensions and internal stress.

You believe we should have opportunities to express our egos, but not to the degree that things get out of balance?

If you let such a drive become so strong that you sacrifice everything else in your life that has value and



that you need, then you are not going to be a well person.

Do you believe that businessmen as a group exhibit a satisfactory degree of wellness?

I think the executives at the top are a dedicated group. You continually hear of such men working many hours a day, seven days a week. But I gain the impression that too many of them are living unbalanced lives. Probably a man's business would be better off if he gave fewer hours to it, distributed more responsibility and authority to subordinates, and became a more balanced individual. Nobody can do

his best when he is always working under drive and tension.

You would be willing to make that a sweeping statement?

Absolutely sweeping. It isn't only a question of business; it is involved in running any type of organization. If it is going to be run well, it must be run by a person who is capable of performing at his top-level potential. If you aren't at that level and you are driving yourself 60 hours a week, your organization isn't getting the best from you. The fact that it is getting more hours is irrelevant. What it needs is the most good hours, high-peak hours, it can get from its executives.

What would constitute a feasible work week for executives?

It would vary a lot with the job. Also, I can conceive that a person might have to work long hours at certain times and for short periods. I don't want to put a strait jacket around work time.

One more question. Why do you believe that efforts to maintain the status quo in life are harmful and self-destructive?

When status quo is your major interest, you are going to react against everything that threatens status quo. You will then, I think, be opposing the natural order of things. All individuals—and that includes institutions as well as persons—are continually changing their character. In seeking to maintain the status quo you are essentially death-oriented, because all individual things are always on the way up or on the way down, except possibly momentarily.

It follows that a holding operation—and that is how I interpret status quo—has little chance of success. The best way to protect what is good in the status quo is to try to identify those possibilities of change that will incorporate these good things and work for them.

All of us tend to cling to what we have come to regard as our own integrated, tried-and-tested set of beliefs. But we ought to be willing, as contradictions come along that challenge these beliefs, to re-examine them objectively and make adjustments if necessary. You must constantly question your insights and revise your goals. You must learn how to do this without unduly increasing the stresses of living. I am confident that business offers many opportunities for this kind of living, whether one is an ordinary worker or a top executive. **END**

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I am not just talking about the absence of sickness, but rather whether the individual is oriented toward living so that his functioning approaches the full potential of which he is capable. This will vary

with individual environment, but environment can be changed. He can always do something to better it.

That is what freedom really means for the individual. As we move toward high-level wellness, my guess is that there will be an enormous increase in the potential and ability of people to do all sorts of things.

To what extent is the drive to get ahead, the personal competition in a business, a factor working toward unwellness?

Competition is all right, in my opinion, but it can be abused. Underhanded and unethical methods react severely on any person of ordinary sensitivity, producing harmful tensions and internal stress.

You believe we should have opportunities to express our egos, but not to the degree that things get out of balance?

If you let such a drive become so strong that you sacrifice everything else in your life that has value and

his best when he is always working under drive and tension.

You would be willing to make that a sweeping statement?

Absolutely sweeping. It isn't only a question of business; it is involved in running any type of organization. If it is going to be run well, it must be run by a person who is capable of performing at his top-level potential. If you aren't at that level and you are driving yourself 60 hours a week, your organization isn't getting the best from you. The fact that it is getting more hours is irrelevant. What it needs is the most good hours, high-peak hours, it can get from its executives.

What would constitute a feasible work week for executives?

It would vary a lot with the job. Also, I can conceive that a person might have to work long hours at certain times and for short periods. I don't want to put a strait jacket around work time.

One more question. Why do you believe that efforts to maintain the status quo in life are harmful and self-destructive?

When status quo is your major interest, you are going to react against everything that threatens status quo. You will then, I think, be opposing the natural order of things. All individuals—and that in-

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YOUR STATE—as well as the other 49—faces growing financial pressures.

In some states these pressures have already brought serious money crises. Other states have recognized the danger and have acted to meet it. Such action demands cooperation of citizens as well as state administrations. It can be more effective if businessmen and others who are vitally affected understand:

- ▶ The trends in state finances.
- ▶ Major causes of these trends.
- ▶ Where state money goes.
- ▶ What the future will bring.
- ▶ What can be done.

The trends

The state financial picture has changed markedly in the past 10 years. The facts are these:

State governments spent \$23.5 billion in fiscal 1958—approximately 150 per cent more than a decade ago (\$9.5 billion). Several legislatures now find themselves making appropriations exceeding \$1 billion. In two, New York and California, expenditures exceed \$2 billion.

The gap between general revenues and expenditures continually grows. In 1948 this gap was \$200 million, compared with \$1.8 billion in fiscal 1958. In every one of the past 10 years the general expenditures of the states have exceeded their general revenues. This picture varies greatly from state to state. For example, in fiscal 1958 general expenditures exceeded general revenue by about \$150 million in Michigan, while Tennessee had a surplus of approximately \$3 million.

The gap between revenues and

expenditures is being filled by increased debt. State bonded indebtedness has increased in 10 years from \$3.7 billion to \$15.4 billion. In the same period interest payments have gone from \$86 million to \$396 million, an increase of more than 360 per cent.

HOW STATE DEBTS INCREASE

| All states | Amount (millions) | | Per cent increase |
|-------------------|----------------------|--------|----------------------|
| | 1948 | 1958 | |
| Total debt | | | |
| outstanding | \$3.7 | \$15.4 | 319 |
| New borrowing | 0.9 | 2.3 | 147 |
| Debt redemption | 0.2 | 0.6 | 206 |
| Interest payments | 0.1 | 0.4 | 361 |

Source: The Council of State Governments, 1959.

Taxpayers' ability to meet these costs has not increased accordingly. In the past four years state tax revenue has increased 31 per cent while personal income increased only 21 per cent. Per capita tax revenue increased 24 per cent from 1954 to 1959 while per capita personal income, in a time of large growth in population, increased by approximately 15 per cent.

Major causes of trends

The major causes for the large increases in both operating and capital expenditures of state governments are four:

1. The population to be served has grown from 132 million in 1940 to approximately 180 million in 1960. More important than this gross increase has been the changing composition of the population. The age groups that create the largest service requirements in terms of state expenditures have been growing much faster than the total

population. The school-age group (those under 21) has grown by 33 per cent in 10 years, compared to the over-all population increase of approximately 19 per cent. Persons more than 65 have increased by 33 per cent. This is the group that creates the largest demand for health and welfare services.

2. Concepts of the services that state governments—in fact, all levels of government—are required to provide also are changing. The explosive increase in our standard of living since World War II has had a direct impact on the growth in public services. This has cost implications of two types: Demands for new services, such as support for community colleges; increased standards for services already available, such as mental care and care for the aged.

3. The rapid growth of industry and technology has created new demands for public services. The need to modernize the highway system is an example. The postwar increase in state indebtedness has been largely due to highway construction.

Many other examples of increased costs directly related to the scientific and technological revolution that is taking place can be identified. Advances in medicine, for instance, increase the number of people more than 65 which require state services. Science and vocational training demands increase costs of the secondary school system.

It is true that some of these advances in science and technology have reduced the costs of state services. The number of tuberculosis cases to be cared for in state institutions has decreased, for example,

but on the whole these reductions are not numerous.

4. Between 1949 and 1958 consumers have witnessed price increases amounting to about 21 per cent. During the same period, state expenditures have been even more adversely affected. Their costs have risen by more than 37 per cent. In other words, a substantial portion of the \$14 billion increase in state expenditures in the past decade has been due to inflation rather than increases in the type, amount, and standard of service.

State budgetary assumptions often fail to take inflation into account. This is particularly true in the majority of states where the legislatures only meet every other year. The result has been that planned service levels and standards have had to be reduced to keep within subsequent legislative authorizations.

These four factors have been at work all along. However, only when they coincided with two additional factors did the state financial picture reveal its true dimensions. These two factors were exhaustion of the surpluses and reserves that states had built up during World War II and a general economic recession which began immediately to affect state revenues adversely, and to increase state costs in such areas as unemployment insurance.

Where the money goes

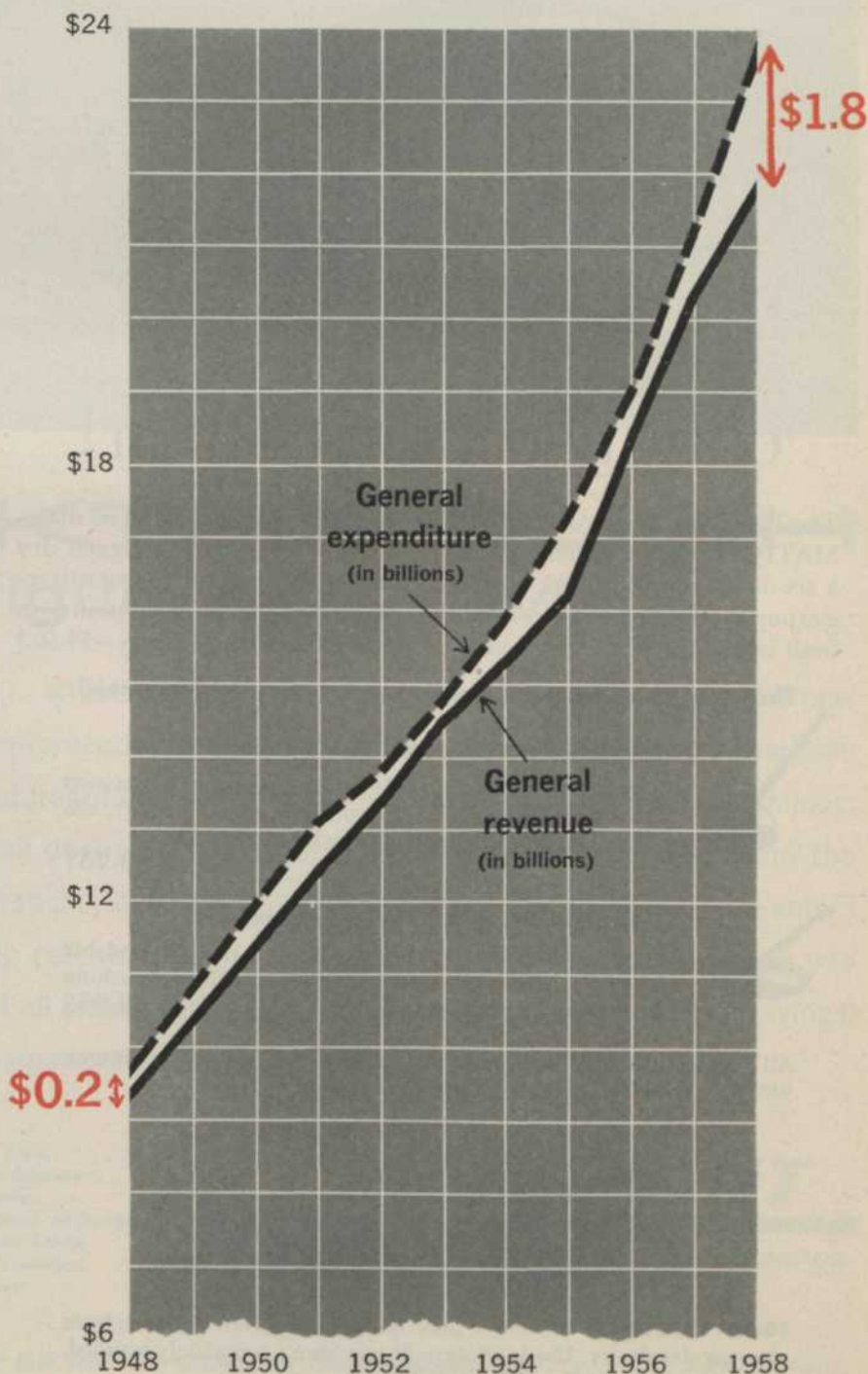
Four major public services account for more than 81 per cent of the current expenditures by state governments:

- ▶ Education
- ▶ Highways
- ▶ Public welfare
- ▶ Health

Less than one fifth of the states' general expenditures are now used to support all other state services and functions.

Increases in education, highway, and health expenditures have multiplied substantially more in the past 10 years than total general expenditures. Contrary to popular belief, welfare has not kept pace in this

Revenue-expenditure gap of states has grown 900%



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YOUR STATE

continued

respect. As for state borrowing, the picture is somewhat different. Highway construction accounts for more than half of the total state debt of \$15 billion; education comes next with approximately 15 per cent, or \$2.2 billion. In third place, at approximately seven per cent or \$1.1 billion, are veterans' bonuses. These three areas accounted for 75 per cent, or more than \$11 billion, of the total state bonded indebtedness in fiscal 1958.

The future

Will these trends continue? On the whole, yes. Here's why:

1. Demand for the four services that account for more than 80 per cent of state expenditures will continue to grow. Gross increases in population, plus changing characteristics of this population, will create continuing demands for more education, highways, and health services. Demand for public welfare services will continue to grow, but at a decreasing rate.

Various estimates indicate that the total United States population will increase by another 34 million, or 20 per cent, in the 1960's. In the same period, the number of persons more than 65 will expand from 16 million to approximately 20 million. The under-21 age group will increase from 72 million to approximately 90 million.

2. The demand for the services that state governments provide will grow faster than state revenues. The gap between revenues and expenditures will continue to grow with a resulting increase in debt and debt service. The need to expand existing revenue systems and to develop new sources of state revenue will grow more pressing. This will heighten the conflicting pressures to minimize the tax burden, on the one hand, and to increase the types and quality of governmental services, on the other.

Effective channeling and balancing of these conflicting pressures will highlight the need for more effective legislative, executive, and management machinery.

3. The forces of industrial and technological development will continue to increase the amount and standard of services that state governments will be required to provide. Particularly noticeable will be the impact of science and technology on the costs associated with

(continued on page 64)



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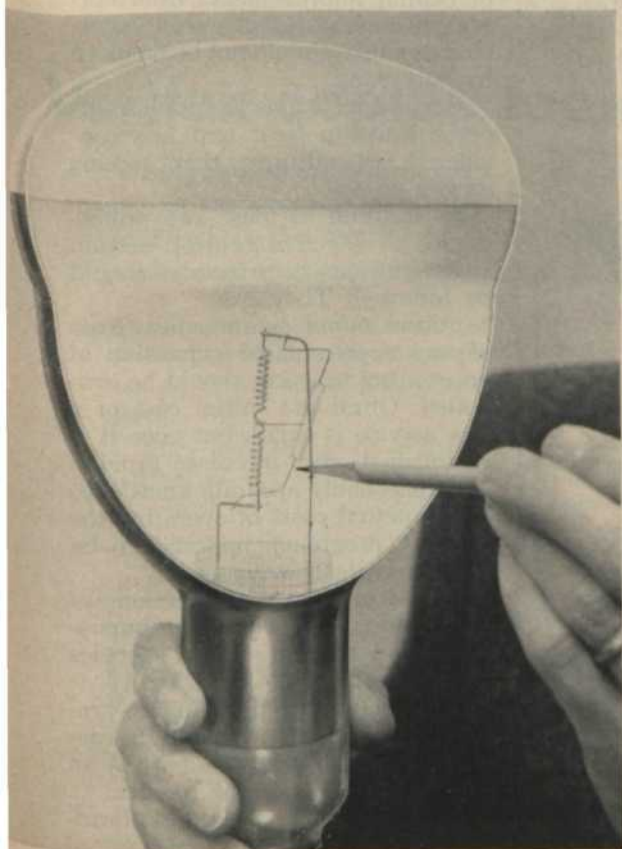
How? To name a few—General Electric's dramatic new Bonus Line electrodes, better arc-tube design, and fewer parts to intercept light. And a new 1959 line of six G-E Bonus Line 400-watt Mercury Lamps are your *biggest* bargain in mercury light.

IN FILAMENT LAMPS there are some important differences between brands—some of which are detectable even *before* you put the lamp in a socket. Like the new 1959 smaller, brighter, 100-watt lamp bulb that's small as a 60-watter but delivers more initial light than two 60's. Or the new 1959 G-E Quartzline lamps that are pencil-thin but pack up to 1500 watts.

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YOUR STATE

continued

primary and secondary school education and on institutional care of the sick and the aged.

4. State finances will continue to be highly susceptible to the adverse consequences of downturns in the general economic picture. The gap between general revenues and expenditures in fiscal 1955 and 1958 is mute testimony to this.

What can be done

Effective control of state expenditures requires:

First, clear and simple presentation of proposed programs to the various legislatures and the public. Such presentations must include readily understandable information on, 1, the groups and individuals to be served, 2, service to be provided, 3, standards of performance, and, 4, cost.

Without such information neither the people nor their representatives can make intelligent choices among services.

Second, the financial planning processes of state governments, particularly in the area of capital expenditures, require improvement. Financial problems should be recognized soon enough to permit alternative plans and financing.

More attention needs to be given to financing a much larger portion of capital improvements from current revenues. Regular and recurring expenses should not be financed by borrowing.

Borrowing to finance public purposes leads to freer and less considered expenditures than paying as you go.

In addition to these two prerequisites of effective control, certain basic concepts or principles should be followed. They are:

Future as well as immediate costs of any contemplated expansion of an existing function should be estimated. Often the initial cost of a new service is small, but once it is established, cost increases rapidly.

A reasonably accurate knowledge of the actual costs of operating the various programs undertaken by state agencies is necessary.

The degree to which actions of one agency of government impose additional costs for other agencies should be known.

The relative priority among programs and services should be determined periodically as part of an effective fiscal planning process.

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YOUR STATE

continued

ance standards need to be continually reviewed and revised.

Clear presentations of programs and their financial implications, ef-

fective financial planning, and acceptance of sound principles for controlling state expenditures must be backed up with a well conceived system of controls. This may often require major efforts to strengthen central fiscal organization and administration. In this area the states

have made good progress over the past 20 years. For example, almost all states now place the responsibility for budget formulation on the governor rather than on commissions or other agencies. Many states, however, lack qualified personnel capable of developing and operating an integrated state-wide budgetary and financial control system.

Other key elements of an effective expenditure control system include:

Improved accounting practices, particularly in such areas as maintenance and operation of automotive equipment.

Improved management methods, particularly in purchasing, personnel administration, and the development and use of performance standards.

Improved operating reports. In many states financial operating reports are too late and too complex to be used effectively in locating trouble spots, analyzing the reasons for increasing costs or for changing planned expenditures.

Most of these techniques have their counterparts in business enterprises. They can be tailored to the varying situations of state financial management.

That is not the problem.

The problem is getting key groups and individuals to accept the necessary changes in relationships between government and its citizens and employees.

Centralized purchasing techniques will mean that many local merchants, gasoline station owners and others will not receive a portion of the states' business. A merit system will mean that certain persons will no longer be able to obtain state jobs.

Quarterly allotments of appropriations will mean less leeway for department and agency heads in spending state funds.

All these changes will affect many people. Change means insecurity. It means looking for new business for the businessman who no longer can meet competitive bids on state purchases. It means looking for a new job for a state employee who does not like to work against performance standards or who may not meet the minimum qualifications for the job.

Often the same groups that demand more effective control of state expenditures are not effective because many of their members don't want to accept the changes which effective control would bring about.

—J. D. YOUNG

McKinsey and Company

Comparison of state expenditures for major programs (in millions)

'48 '58

Welfare



up 83%

Education



up 180%

Highways



up 231%

Health



up 207%

Revenues up 144%

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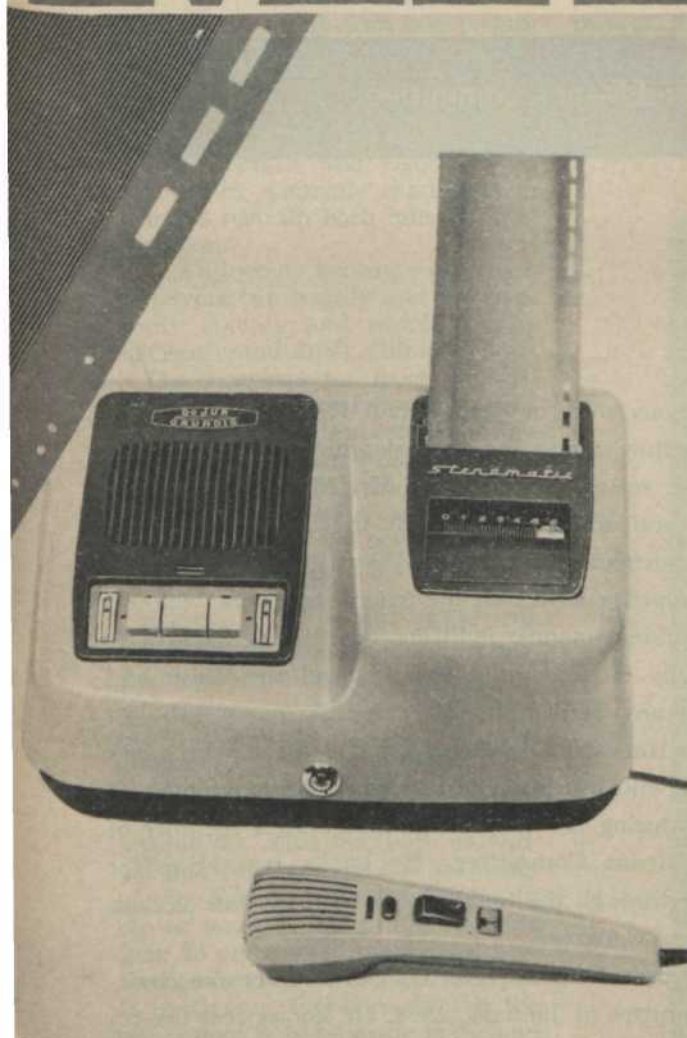
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MATIC

HOW YOUR INCOME TAXES CAN BE CUT

First phase of tax reform
gets under way this month

By Chairman Wilbur D. Mills, House Ways and Means Committee



ROBERT PHILLIPS

In the unpretentious office of Rep. Wilbur D. Mills on Capitol Hill is a bright yellow sign facing his desk which says "RELAX."

The precaution seems unnecessary. Mr. Mills appears perpetually at ease and unharassed, despite the obvious pressures of his job as Chairman of the House Ways and Means Committee. His Committee writes all the federal tax laws.

Rep. Mills' confident manner is fitting, considering his experience. He probably is better qualified to head the Ways and Means unit than any predecessor in recent times.

A graduate of Harvard Law School and a former Arkansas judge, the 50-year-old legislator has absorbed a vast amount of fiscal know-how during the 17 years he has been a member of the Ways and Means Committee. He has a reputation for knowing his way through the tangles of federal tax law as does no other member of Congress.

Mr. Mills was preaching tax reform before he became chairman of the Committee in January, 1958. He knows real tax reform is an idealistic goal that can't be reached quickly. But the hearings now getting under way are the first phase of what may be a complete overhaul of our federal tax system.

REFORM of the federal income tax system is the goal of a monumental study which the House Committee on Ways and Means will begin this month in Washington.

A major purpose of the study is to provide the conditions necessary for reduction in tax rates without sacrificing revenues required for responsible, noninflationary financing of government.

At the same time we seek:

1. A tax climate more favorable to economic growth.

2. An income tax under which the fundamental maxim that people with the same income should pay the same tax will be more fully observed in practice.

3. An income tax which interferes as little as possible with the operation of the market in deciding how our national resources—human and material—can best be employed.

4. Assurance that tax burdens will be as fair as possible.

5. An income tax which will respond promptly and vigorously to changes in economic conditions in order to restrain both inflation and recession.

6. An income tax law with which taxpayers can readily and inexpensively comply and which can be efficiently and fairly enforced.

The hearings we have planned may be the most searching ever held on constructive tax reform. More than 170 witnesses, each an expert on one or more aspects of the federal revenue system, will testify. Their testimony will cover virtually every important provision of income tax law.

On the basis of this study, the Committee will be able to draft specific legislative proposals. Full public hearings on these proposals will give all interested persons and groups a chance to be heard.

At this stage in its study, the Committee will concentrate on the income tax. This tax, both individual and corporate, is the mainstay of our federal revenue system. In recent years it has produced more than 75 per cent of the federal government's total net budget receipts. It is obvious, therefore, that if the tax system is to be made fairer and more conducive to economic growth, reform must begin here.

The key to income tax reform is

broadening of the tax base. The Committee's study will focus on those provisions which serve to remove large amounts of income from the tax base. The Committee will seek to determine why each provision originally came into being, what effect it now has, and whether it should be retained when examined in the light of the objectives.

Few taxpayers, unfortunately, realize how serious the challenge of constructive tax reform really is. Until this realization becomes widespread, the type of tax changes upon which the nation's future fiscal well-being depends will not be undertaken. The reason is simple. Impressive as are the gains to be achieved from this reform, they cannot be had for free.

Almost every income taxpayer enjoys some special privilege under present law. While relatively small for most of us, these tax favors are great indeed for some taxpayers. In the aggregate, they add up to a substantial amount of income on which

tax legally need not be paid. For most of us, therefore, the tax privileges we will have to forego will be small and the gains large. For a relatively few taxpayers, the reverse will be true. These changes will not be made, however, until enough congressmen and senators have been instructed by enough of their constituents to go ahead with the job of constructive tax reform.

How serious is the problem? Let's look at the individual income tax to get some notion of the dimensions involved:

In 1957, individuals in the United States received total income of \$350.6 billion. On this income, federal income taxes of \$34.4 billion were paid. These are the latest comparable official figures. The federal income tax took less than one tenth of our personal incomes in 1957.

Something seems to be wrong with this arithmetic. The lowest rate in the federal income tax on individuals is 20 per cent and these tax rates go all the way up to 91 per

Tax rates
which go up to 91%
could be reduced



if the tax rate were broadened
and special deductions prohibited



INCOME TAXES

continued

cent. How could we pay less than 10 per cent of our income in tax, when the lowest rate is 20 per cent? The answer, of course, is that more than half of our income is never taken into account for federal income tax purposes. Of our total personal incomes of \$350.6 billion, only \$149.4 billion, or 43 per cent, was actually taxable.

Why wasn't the remaining \$208.2 billion taxed? About \$42 billion consists of various kinds of income which by statute, regulation, or court decision have been excluded from income for federal income tax purposes.

Another \$28 billion represents income received by individuals who, under present filing requirements, need not file income tax returns and income which should have been but was not reported.

An additional \$18 billion is income reported on returns on which no tax liability accrued, because of personal exemptions, deductions, tax credits and other reasons.

Personal exemptions on taxable returns account for another \$77 billion on which no tax was imposed.

Deduction of personal expenses, including the standard deduction, removed an additional \$36 billion of income from tax, bringing us to our taxable income of \$149 billion.

Not all of this income, however, bore the full brunt of the income tax; tax credits reduced tax liabilities by about \$500 million, and income-splitting on joint tax returns accounted for about another \$4 billion of taxes which weren't paid.

I do not suggest that all of the income which escaped tax should be included on taxable incomes. No one seriously urges doing away with the personal exemption, for example. But surely we must study carefully all of the provisions which remove such large amounts of income from tax if we are to be sure that we have the most efficient and fairest possible tax with the lowest possible rates.

We can think of our income tax as a triangle, the area of which is the revenue collected. The base of the triangle is taxable income and the height of the triangle is the rate schedule. We can get the same area from a narrow base and high rate schedule or a broad base and low rate schedule.

What difference does it make whether we pay a 20 per cent tax on half of our income or a 10 per cent



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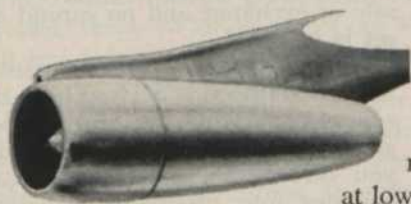
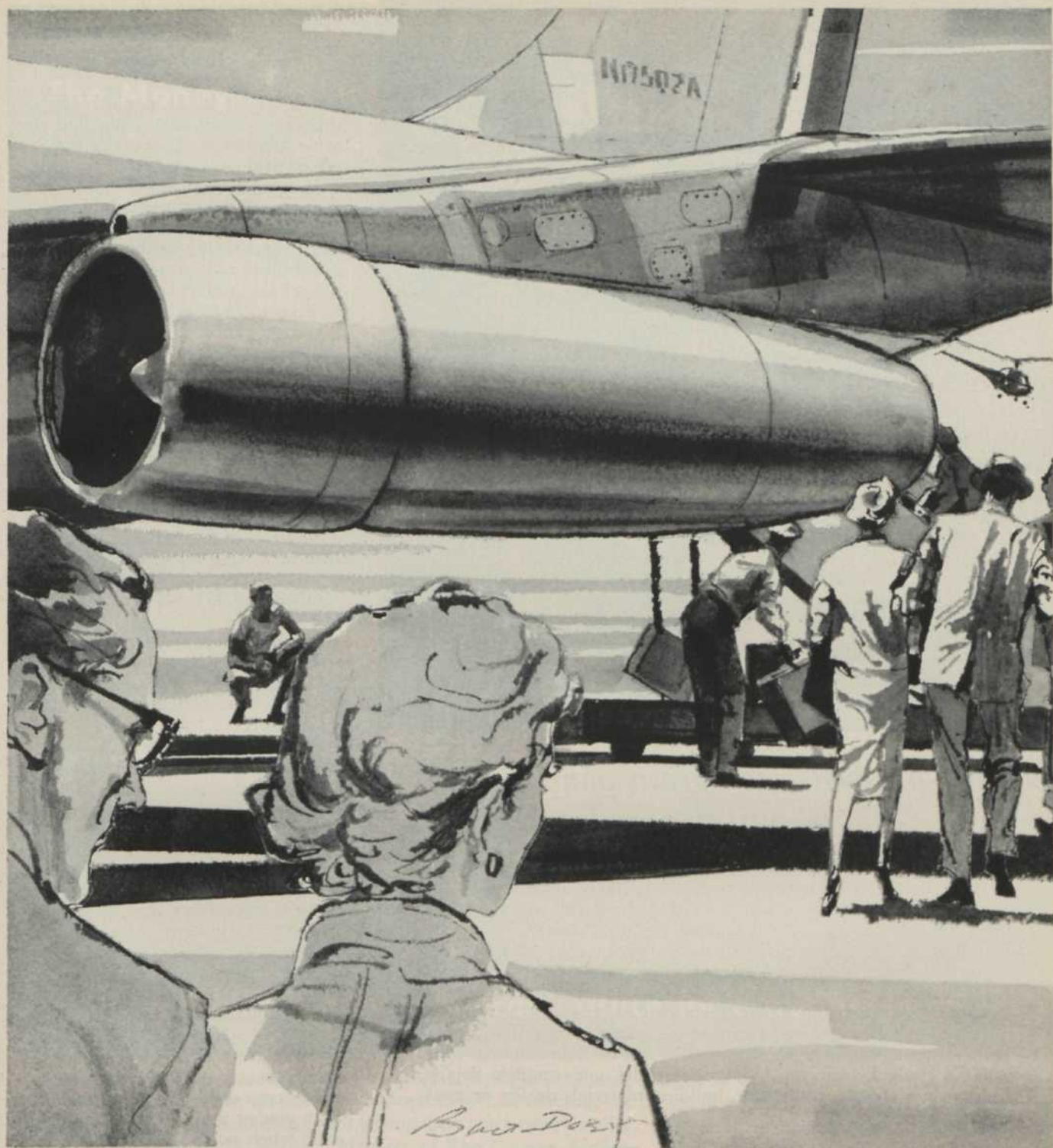
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INCOME TAXES

continued

tax on all of it? It would make no difference if all taxpayers had the same treatment. If the tax law, in effect, said to every taxpayer, "Take half of your total income and apply the rates in the rate schedule to that amount," there would be little reason, apart from arithmetical simplicity, to prefer a tax law which required the application of rates half as high to the full amount of every taxpayer's income. But this is not the case.

The tax law is crammed with provisions which instruct you to determine your tax not only on the basis of the amount but also on the basis of the source and the disposition of your income.

Specific examples of these tax differentials can be cited seemingly without end. The law provides, for instance, that all interest you receive on corporate and federal government bonds must be included for tax purposes. It excludes from your gross income interest received on state and local government debt issues and the interest which accrues on your behalf on your insurance policy.

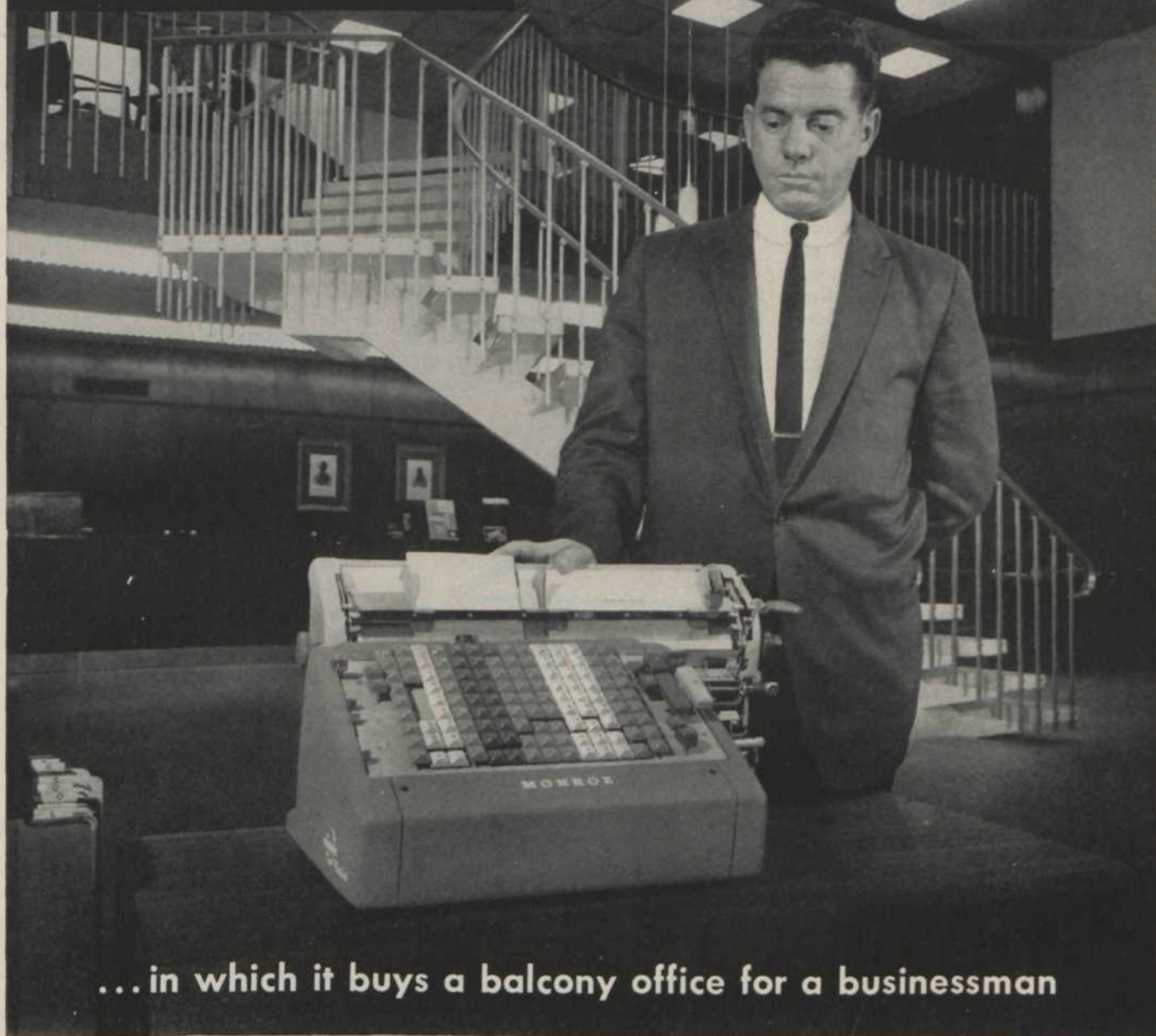
The law directs you to treat as income fully subject to ordinary income tax the gains you realize on the sale or exchange of certain types of assets. Gains realized on certain other types of assets are treated the same way if you've held them for six months or less. But if you hold the asset one more day before selling or exchanging it, it suddenly becomes a different asset altogether. The law then instructs you to deduct 50 per cent of the gain from your income and, in any case, to pay a tax of not more than 25 per cent of the full gain, regardless of what rate you must pay on your other income.

In some cases the law proclaims that you've realized a capital gain even when you've not engaged in a sale or exchange and no capital asset is involved.

You may be a creative person whose livelihood is derived from the sale of copyrights you create. Such gains are ordinary income. Should you direct the same talents and energies into producing a patent, however, the money you get from its sale is a capital gain.

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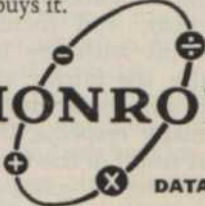
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INCOME TAXES

continued

of the asset. Moreover, these depreciation charges are limited to the amount of your investment in the asset.

Or did you, instead, invest an equal amount in developing an oil well? You may charge off all but a small fraction of its cost against your income in the year in which you made the expenditure. Moreover, you may continue to charge off its cost at the rate of 27.5 per cent of the gross income you get from the oil well, but not more than 50 per cent of the net income therefrom, for as long as it continues to produce, even if you have long since recovered your full investment.

Do you work for a salary? If so, your employer makes a contribution on your behalf to the Old Age and Survivors' Insurance Trust Fund maintained by the federal government to provide you an annuity upon your retirement. You needn't include that contribution in your income; nor do you include the annuity in your income when eventually you receive it. Chances are, your employer has also contributed to a private pension or other retirement plan on your behalf. You pay no tax on this portion of your income. When you retire, if the retirement plan gives you your accumulated benefits in a lump sum, they are regarded as a capital gain, on which you pay no more than 25 per cent.

If you work for yourself, however, any similar reservation of your current income for retirement purposes is subject to ordinary income tax treatment.

At the close of your taxable year, will you be less than 65 years old? If so, \$600 of your income is tax free. Your taxpaying requirement on the same income, however, falls dramatically on your sixty-fifth birthday. Then you may exempt \$1,200 of that income from tax.

Such distinctions are bewildering. As you add them up, it becomes increasingly difficult to see how they can, taken together, serve a useful or constructive purpose. Indeed, their main effect seems to be to create a large number of separate income taxes tailored to economically insignificant differences in the situations of various taxpayers.

As a result, taxpayers in identical circumstances from any economically significant point of view and with identical incomes often pay vastly different amounts of income tax.

Just as bad, taxpayers with vastly different incomes often pay identical amounts of tax.

When these disparities become large enough, we tend to base our business and personal financial decisions on tax considerations rather than sound business judgments. Tax advantages make it profitable for us to ignore the signals of the market place as to the best use to make of the means at our disposal. The cost is inefficient use of resources and increasing obstacles to economic growth.

We become, on the basis of our own experience, suspicious of the integrity of the tax as it applies to our friends, neighbors, and competitors. We become envious of the tax advantages enjoyed by others, and urge Congress to give us the same type of benefits.

Often the Congress heeds these pleas and extends tax privileges, being careful to provide that these benefits are available only if certain



highly specific conditions are met. After all, the Congress is the guardian of the public purse and must insure the nation's fiscal integrity.

These restrictive conditions serve to squeeze some out of the new tax privilege area; if that happens, more representatives come to Washington to show the Congress how unfairly they are treated and how just their demands for similar concessions are.

The end product is one with which we are all sadly familiar: the highest peacetime tax rate structure to be found in any advanced industrial nation as a direct result of whittling away at the tax base; an Internal Revenue Code which becomes bulkier and more complicated each year, and increasing disenchantment with the income tax—basically the fairest and most productive tax so far devised.

In many respects, the last is the gravest result of the tax-base erosion process. The self-assessed individual income tax is perhaps the greatest

testimonial to the political maturity and responsibility of a nation. But the tax is losing this character as it becomes increasingly remote to most Americans and as it becomes the exclusive province of a technically trained elite.

So far, the income tax has withstood the strains of inequity and complexity. We cannot, except at our peril, assume that it can long continue to do so.

What alternative can be offered?

If all the exceptional provisions now in the law were eliminated, if a uniform tax base were provided, while maintaining the present system of personal exemptions, we could collect the same revenue we now get from the individual income tax with a rate schedule in which the first bracket rate was nine per cent and the top bracket rate was 41 per cent.

Should we, in fact, strive to broaden the tax base so drastically? As a practical matter, we have to recognize that a number of the income items not now included in the tax base are excluded because of the extraordinary costs that both the taxpayer and the Internal Revenue Service would face if they were taxed. Such items are not numerous and their number is likely to decrease as accounting technology advances.

Other items which are treated for some accounting purposes as income—or disallowed as expenses—may not be proper subjects for income taxation.

The public purposes of some other provisions may be so important that, unless some other device can be arranged which will accomplish these purposes more efficiently, we must continue the exceptional tax treatment.

In short, we cannot be sure that the objective of a good income tax system would be best served by an income tax base without any exceptions or special treatment.

The study by the Committee on Ways and Means is aimed at determining which of the present exceptional provisions can meet the tests I've suggested and should, therefore, be retained, and which should be eliminated or modified.

All of us have a large stake in this study. It is my hope that taxpayers generally will be able to obtain from it a clear perspective concerning the advantages to themselves and to the nation of a broad, uniform tax base with low tax rates. Solid support from all of the people will make constructive tax reform a reality.

END



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FEATHERBEDDING

continued from page 41

small or minor part of total costs, featherbedding would have a relatively small impact. But, for industries where labor costs already are a high percentage of sales, the impact of unnecessary labor costs is far more direct and immediate.

Featherbedding also leads to an uneconomic use of capital. The larger labor cost also means that more money will be tied up as working capital. The total costs of production and, in turn, the prices of goods and services produced are higher than would otherwise have been necessary.

An industry characterized by make-work practices finds it difficult to compete with the products or services of industries not so burdened. It becomes vulnerable to loss of sales. The net yield of featherbedding then becomes shrinking job opportunities even for those directly involved. The worker who loses his job pays the price for the featherbedder who holds on to a job.

Thus, featherbedding involves either the retention of employees who are no longer needed or the continuation of production practices which are obsolete or less efficient. The result is an increased cost of doing business. This fact is widely recognized. For example, the railroads estimate that make-work rules and featherbedding cost them about \$500 million annually. This is equal to about 10 per cent of their total wage bill and about five cents out of each dollar of railroad revenues.

Mobility of labor

Featherbedding blocks the movement of workers to new jobs. This mobility is necessary if our rapidly changing technology is to yield its full benefits. Many unions insist upon the continued employment of an excessive number of workers at occupations which our advancing technology has rendered obsolete. Workers must be free to enter and to leave particular industries in response to changes in the outlook. Too many workers in industries characterized by inefficient practices block the free flow of workers that is essential to maximum growth.

Thus, featherbedding distorts the employment pattern required by our expanding technology. It freezes workers in obsolete, antiquated, non-productive pursuits by rewarding them for resisting change. Through featherbedding, an industry's capacity to provide higher living stand-

ards for most of its employees is reduced.

In their desire to protect the individual worker, advocates of featherbedding ignore the social gains which inevitably arise from technological progress or attempt to preempt the gains to hire workers no longer required. They deny the gains from technological progress to their own industry and also to the newly emerging industries. Workers who might otherwise be available to the industries most benefited by technology remain in their unnecessary jobs; they are not impelled to seek employment in newer or more productive pursuits.

By concentrating solely on the economic costs of technology as it affects particular workers, featherbedders impede the expansion of jobs. In the past, the number of new jobs created usually has exceeded by far the technological displacement of labor so that on balance the total number of job opportunities has increased. Security for the



few under featherbedding is at the expense of the many.

We are now spending about \$10 billion annually for research and development. The ratio of outlays for the development of new products and more efficient techniques to total national production is 13 times greater than it was a quarter of a century ago. Because our technology changes much more rapidly than it has in the past, our requirements for labor, capital, and managerial skills are changed.

We shall require greater labor mobility in the years ahead. The more rapid the rate of research and discovery, the more important it becomes to make changes. New labor skills will be required. These, in turn, will carry higher rewards for the particular workers required. It should also be kept in mind that, as a result of the low birth rate in the '30's, we face severe labor shortages in the age groups 25 to 44 for the next decade. We tend to lose sight of this longer-term problem in our preoccupation with immediate problems of unemployment.

New capital investment

Featherbedding also may have an adverse effect on the flow of invest-

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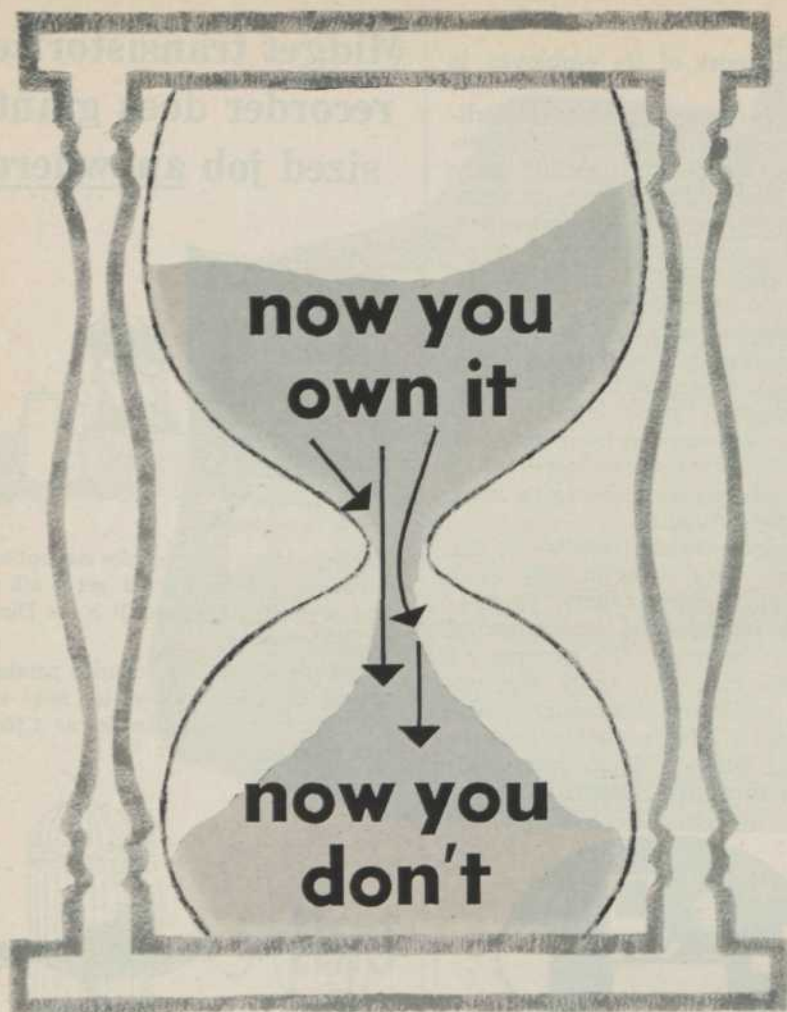
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FEATHERBEDDING

continued

ment funds into an industry. Reluctance to invest in the railroads arises in part because of their poor profit performance and the problems of regulation.

But, in addition, investors are concerned that the gains from capital additions and improvements will be steadily diverted to railroad labor as it demands that it be sheltered from the resulting labor displacement. The shrewd investor knows that in other industries management retains greater discretion in handling such basic managerial functions as the scheduling of work and the control or the regulation of the use of equipment.

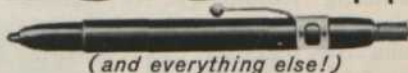
Because of the intensely competitive transportation situation and the declining relative position of the railroads, the carriers find it increasingly difficult to recover higher labor costs by raising rates. Higher rates are far more likely than in the past to lead to further losses to competitive forms of transportation rather than to greater net income. The result is fewer jobs.

To investors being asked to supply funds, make-work rules mean that the pay-off period for new equipment is lengthened, and there is less prospect that operating costs would decline. The productivity of a dollar of investment is less because of featherbedding. This means that the return must be sweetened by a higher rate of interest or by other costly devices. And the more a company must use extraordinary financial rewards to investors to offset the dislike of featherbedding, the more it will find its ability to tap capital markets circumscribed.

In growth industries, higher labor costs may be absorbed through expanding volume. This alternative is not available in industries which are not expanding. In those industries featherbedding accelerates the rate of decline in the number of jobs.

Where demand is rising sharply, price increases have less immediate adverse impact upon employment than in mature or declining industries. As volume rises in expanding industries, fixed costs can be spread

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over a greater number of units. Even shrinking profit margins can be transformed into rising total profits, given a sharply ascending sales curve. In addition, rising sales and profits attract capital investment, so that increased mechanization can result in economies to offset the higher costs which accompany make-work restrictions.

In the more mature industries, however, featherbedding accelerates or aggravates the competitive struggle to maintain position.

Resource allocation

How can resources best be combined to produce the most efficient and desired results? To yield the most in efficiency, management must be free to choose how to combine the factors of production, including labor. This is a primary contribution of management to the production process. Barriers to the exercise of this basic function must reduce the net contribution which management can make.

Restrictions usually result in an allocation of resources which is not in accordance with consumer preferences. They attempt to keep labor scarce relative to other factors of production. Featherbedding goes counter to the thesis that each individual, by fully utilizing his own talents, will contribute toward the maximization of national effort. Instead, the economic scales are doctored so that a higher labor input is required than the latest developments in technology dictate.

Reductions in featherbedding are difficult to carry out. Nobody likes to lose his job. No union relishes the thought of a reduction in the number of dues-paying members. Nevertheless, competition from substitute products and from foreign producers creates inexorable pressures to streamline production methods in an effort to hold down costs and prices. Featherbedding may add to the number employed temporarily. The longer-run result is fewer job opportunities in the industry.

Economic growth and even higher levels of living will take place in an environment that encourages the adoption of new techniques of production and distribution. Practices that thwart this goal can only result in a loss to the entire economy because production, employment, and purchasing power are adversely affected. This is a vital area. The elimination of featherbedding and inefficient work practices will stimulate a new upsurge in economic growth.—JULES BACKMAN

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Authority for these statements is a distinguished federal jurist who has devoted many years to studying the problems of maintaining discipline in various units of human society, from the family to the nation. He is Judge E. Barrett Prettyman of the United States Court of Appeals for the District of Columbia. Although his prime interest is in law enforcement, Judge Prettyman is frequently called on to discuss the principles of discipline as a panel member at executive seminars. He believes that maintaining discipline in a business organization is basically the same problem as maintaining it in other social units.

He does not believe that modern executives can or should try to emulate the tough boss of yesteryear

whose every whim was law. But neither should they shrink from the idea of lowering the boom on a recalcitrant employee. Protecting the organization from the excesses of individual members is a management responsibility. It cannot be evaded or delegated to employee groups.

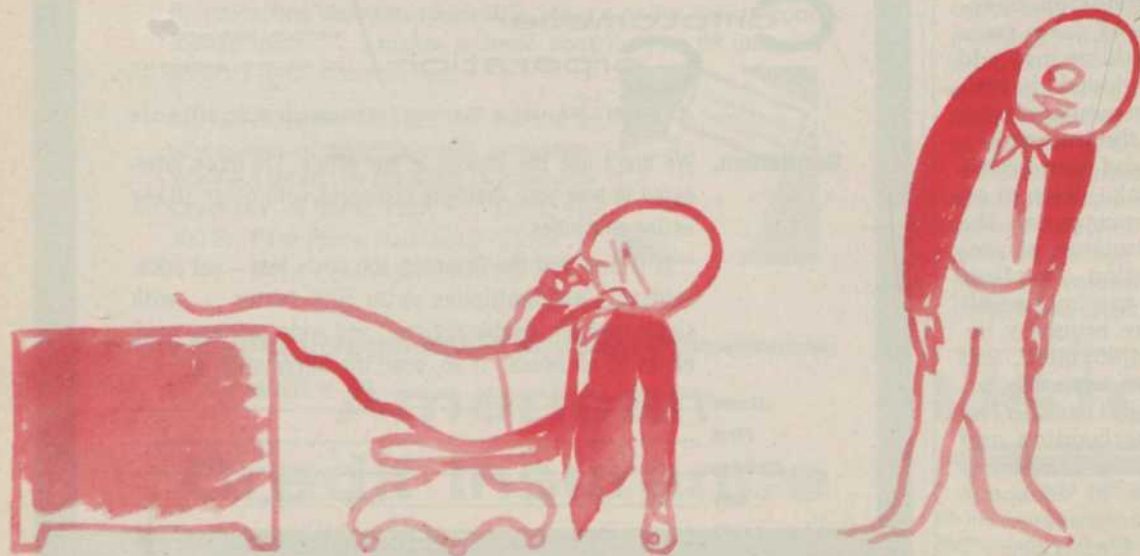
Here are the basic principles of good discipline, with Judge Prettyman's comments on how they apply to business situations:

1. *Lay down clear rules and make sure they are known to all employees.*

The best way to communicate rules to a big organization is to put them in writing. Many managers hesitate to publish specific disciplinary policies. They claim it destroys flexibility in administration. But Judge Prettyman suspects that the real reason is that "there is great insecurity in the minds of many bosses

MOST EMPLOYEES:

Disrespect lax boss, lose self-respect under him



on the subject of discipline; they don't know what to put in writing, so they prefer to leave the rules oral—and vague."

Others contend that employees will feel regimented and bookbound if management spells out detailed regulations. Experience shows the reverse is true. When rules are vague and discipline is largely a matter of executive discretion, no one knows where he stands, and everyone fears the possibility of arbitrary exercise of personal power. Written standards increase, rather than diminish, an employee's sense of freedom.

"The lines are clearly drawn, and within the limits of specified behavior, the individual knows he is free to act," Judge Prettyman says.

2. *Aim for the largest possible measure of spontaneous obedience to rules.*

You cannot coerce a whole mass of people. You may jar them, startle them, or momentarily perplex them, but, in the long run, people in the mass do not scare. They are stubborn. The secret of effective discipline in a big organization is to capitalize on the natural tendency of most people to obey the rules.

This means that the rules must be acceptable to the law-abiding majority. Allowing employees to participate in formulating rules is one way of insuring acceptability, but this technique can be overdone.

"I certainly would not advocate holding a town meeting of employees to get approval of every change in the rules," Judge Prettyman says. "Some managers can set up rules unilaterally that will be highly acceptable. Others get along better when they consult employee representatives. Part of the art of management is knowing how far you can go on your own authority and when you should get participation."

Simplicity also helps to make rules acceptable.

"People tend to ignore or laugh at regulations which are unnecessarily complicated or abstrusely worded," Judge Prettyman says. "Some managers say that certain problems are too complex to be covered in simple rules. Well, the Old Testament author did pretty well with the Ten Commandments. Simplicity is not only desirable but necessary if rule enforcement is to receive mass cooperation."

3. *Rules must be enforced firmly and fairly.*

The average worker's natural inclination to obey the rules can be dissipated by lax or inept enforcement policies. Few men will continue toeing a line that can be crossed with impunity. Employees quickly develop contempt for the superior who lets them disregard regulations, and their own self-respect suffers from the knowledge that they are part of a sloppy unit.

Numerous attitude surveys have demonstrated that morale is highest in organizations whose members are conscious of being held to a high standard of performance. That is what Judge Prettyman has in mind when he says that "human relations techniques aimed at keeping workers 'happy' are not a substitute for discipline. Good discipline itself is the best human relations."

But firmness in discipline must always be accompanied by scrupulous fairness. The rules should apply to everyone—even the man who makes them. They must be enforced on Friday as strictly as they are on

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A strict but fair enforcement of the rules encourages general compliance

Monday. The boss must not wink at a veteran employee who does something for which a rookie would be fired. The worker who is discriminated against is not the only one who resents uneven discipline. Americans have such a strong sense of fair play that they distrust and dislike an official who is unfair in their favor.

"The umpire who cheats a little for the home team never has the crowd on his side," the judge says. "They think he is a bum because he didn't do what an umpire is supposed to do—call 'em exactly as he sees 'em."

4. Punishment should fit the offender as well as the offense.

Judge Prettyman flatly rejects the proposition that the same offense should always receive the same punishment. He says rule breakers fall into three classes, and genuine fairness requires that each should be treated differently.

First, there are the true outlaws—the very small minority who deliberately defy authority and intentionally violate the rules.

"Dilly-dallying with this class of people is a waste of time," says Judge Prettyman. "There is but one way to treat an outlaw—with devastating finality, but extreme care should be taken to make sure he really is one."

"But when you are sure—throw the book at him."

"If you are lenient with the few real outlaws in an organization, the rest of your employees will lose respect for the rules and you will soon have a mass collapse of discipline."

As a postscript to this stern advice, Judge Prettyman adds that the outlaw himself is best served by severe discipline.

"Outlaws can frequently be rehabilitated if they are treated properly," he says. "But their cure comes from strong medicines and not from pink pills."

Second, the venturesome. They are more numerous than outlaws, but still a small minority. These bold spirits enjoy playing at the fringes of outlawry but try not to step too far over the line. They violate only the rules which they think they can get away with violating. They would

not steal money from a cash box but they will turn in a heavily padded expense account.

"The venturesome should be treated with a swift, sure, costly, brief chastisement," says Judge Prettyman. "They are easily cured of their appetite for law-breaking."

The third and most numerous class is composed of essentially law-abiding employees who break rules "by inadvertence or misunderstanding or just plain stupidity."

Such employees ought to be corrected when they wander across the prescribed boundaries. They think much less of officialdom if they are not corrected.

But they clearly do not need or deserve harsh punishment.

Whenever an employee is called up for disciplinary action, his fellow-workers will be watching to see how he fares. They usually know whether the offender is a true outlaw, a venturesome fellow who needs a lesson, or a decent citizen who blundered into trouble.

Respect for the rules and voluntary compliance with them is greatly strengthened when management shows that it, too, recognizes these distinctions and takes them into account in assessing penalties.

"Of course," Judge Prettyman cautions, "we are not here dealing with psychiatric problems which sometimes account for rule-breaking. If an executive suspects that psychiatric factors are involved in an employee's bad behavior, he should refer the employee to medical authorities."

5. Some provision must be made for appeals.

This is a touchy aspect of business discipline, particularly in companies that stress deep delegation of executive authority. Some managers feel that they have no choice except to back up their subordinate supervisors in any disciplinary action they decree. To review or reverse a supervisor's decision, they feel, is a form of meddling that destroys effective decentralization.

But these considerations must be weighed against the fact that American workers have been steeped in the tradition of Anglo-Saxon justice. In this tradition, the right of appeal

is a precious guarantee against unjust or capricious punishment.

Any company which denies this right is literally inviting its employees to look outside the management structure for protection from arbitrary action.

The precise kind of machinery that management sets up for reviewing disciplinary cases depends on many factors, including the size of the organization and the degree of unionization. Informal arrangements work fine in some companies; elaborate hearing procedures are necessary in others.

The important thing, according to Judge Prettyman, is that "the supervisor must not be allowed to serve as prosecutor, judge and jury. Top management must assume responsibility for the essential fairness of all disciplinary actions, irrespective of the level at which they originate."

Some large organizations have tried to resolve the appeal problem by limiting the review of higher management to questions of procedure. If established procedures are followed in a disciplinary action, and if the penalty is within the limits prescribed by regulations for that offense, management upholds the verdict without investigating questions of fact.

This is a dubious solution in Judge Prettyman's view. "Prejudice and personality conflicts can play a big role in disciplinary actions at the supervisory level," he says. "If a supervisor claims that a worker came on shift drunk, and five witnesses swear that the worker was stone sober, only a foolish manager would not look into the facts, as well as the procedures, of the case."

6. Speak softly while carrying a big stick.

Courtesy is one of the hallmarks of good discipline.

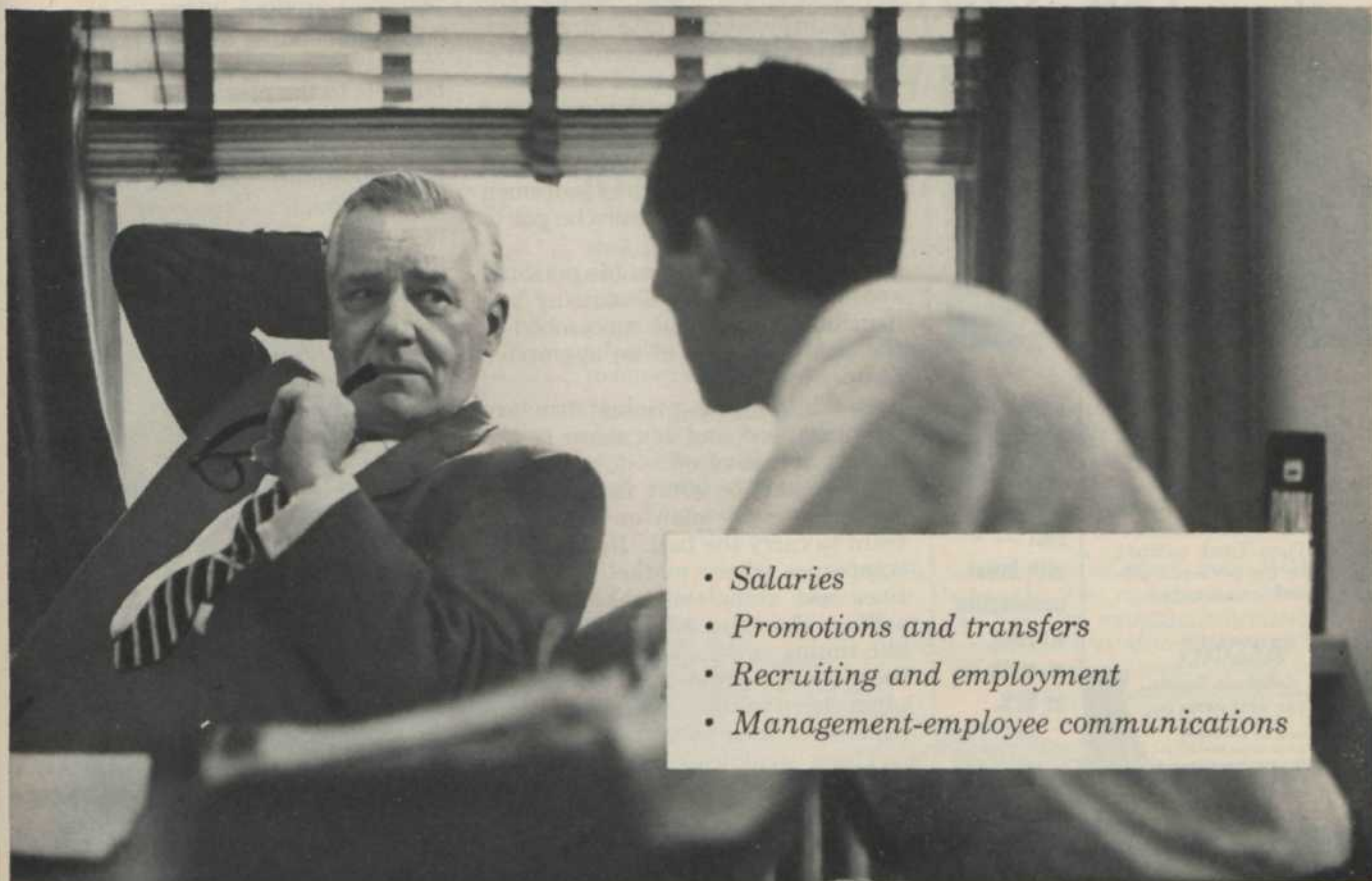
"There is no inconsistency between firmness and politeness," says Judge Prettyman, who is himself noted for both traits.

"The firm man is usually in control of himself, knows what he is doing, and so does it with manners. The churlish boss is often that way because he is uncertain of himself and attempts to cover his own incapacity with tough talk."

—LOUIS CASSELS

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SALES TEAM

continued from page 35

keting team is personal selling. The marketing director of a large electrical products manufacturer says:

"I devote a large part of my personal efforts to developing major accounts. Why? Because I get a warm welcome through my personal contacts where one of my salesmen would be frozen out before he got to the key man."

This executive keeps his personal accounts, but he has lost many key distributors who have succumbed to the blandishments of an aggressive competitor.

In addition, his pricing structure is unbalanced and his share of the market is falling off.

This focus of effort is much like expecting every man on a football team to carry the ball. In too many companies where marketing executives are completely absorbed in selling, the sales effort is vigorous, but timing is off, product lines are incomplete, promotion lags, and often sheer volume is stressed at the expense of long-term profit.

These weaknesses are most evident in companies where marketing leadership is concentrated in one man.

If he is a salesman first and a marketer second, the marketing effort will sharply reflect his personal characteristics. In fact, his decisions now may be more consistently one-sided than was true under the old sales concept because there are now no checks and balances such as prevailed when several independent functional sales heads each reported to the president.

A logical method of providing the necessary emphasis for both sales management and supervision of the direct selling effort is to organize top marketing management so that two distinct positions are created—the marketing manager and the field sales manager.

The *Marketing Manager* is accountable for total marketing. The president looks to him for current sales results and for assurance that the company is prepared to meet the challenges of the future. Because sale of the product is a pivotal fact of life in every business, the top marketing manager assumes a much broader role than formerly. He continually studies general economic conditions and the preferences of consumers; provides advice and service on marketing implications to such other departments as manufacturing, research, financial, and per-

sonnel. His key responsibilities include:

► Forecasting the level of business and sales volume for present and potential product lines.

► Recommending over-all marketing objectives, policies, programs, and budgets to the president.

► Planning or participating in planning for the introduction, design, pricing, quality, and distribution of new products; improving existing products, and eliminating outmoded products.

► Maintaining a marketing organization capable of identifying and exploiting existing and new marketing opportunities, maximizing both volume and profits over the long term, and providing continuing customer satisfaction.

► Developing marketing personnel to insure consistency, stability, and top performance at all levels.

► Continuing control of marketing operations in terms of approved objectives and other plans.

The *Field Sales Manager* is delegated active supervision of the selling effort in the field. He may do this by direct personal contact with salesmen, or he may delegate in turn to regional sales managers. His key responsibilities involve:

► Recommending to the marketing manager participation in plans, organization, and controls for the over-all marketing effort.

► Reviewing and approving forecasts, programs, and budgets developed by field sales units.

► Interpreting and maintaining marketing department policies as they relate to field sales personnel.

► Developing and approving methods and procedures for all phases of field sales.

► Attaining sales objectives and programs within the limits of approved budgets.

► Maintaining a field sales organization designed for most effective attainment of sales objectives and other plans.

► Selecting, placing, training, and developing field sales personnel.

► Developing performance standards for sales operations, measuring and reporting sales results, and promptly initiating action to correct deficiencies.

► Directing the field sales force.

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SALES TEAM

continued

plan that can be pulled off the top shelf and made to fit every company. What works for Procter & Gamble or General Electric may be wrong for a one-product company with a sales volume of \$15 million a year.

The basic principle here is: Organize marketing to accomplish company objectives.

The salient point is that the company is not organized around marketing, but the reverse. Proper weight and emphasis must be placed on the total purpose and objectives of the company. In every case, marketing will play a vital part. However, its role must be properly balanced with that of manufacturing, research, engineering, and other primary functions.

General Motors, for example, learned this lesson in the early 1920's. Under W. C. Durant, General Motors had one dominant orientation—sales. Manufacturing, engineering and research clamored for attention, but were fed in the kitchen. After experiencing a \$38 million deficit, the company turned to sound, balanced organization and management which led it to the forefront of industrial enterprises of the world.

Sound integration of marketing requires that we first determine what the company as a whole can accomplish and what it wants to accomplish. The Carborundum Company, for example, gives marketing proper emphasis in deciding such basic questions as the profits the company expects to make, the markets and product lines it will undertake, its sources of supply, the conduct of research, its financial base, handling of personnel, and its relations with the public.

Clear definition of company objectives can strongly affect the marketing organization.

Once we have set our objectives, we look to the ability of the field sales organization to accomplish its share of the mission.

The best method in most instances is the creation of field sales units in terms of geography, product, or customer. Each such unit can then be held accountable for clearly defined results. As one example, in the Cluett, Peabody & Co. setup, the division sales manager plans, directs, and coordinates all division field selling activities. He works consistently toward establishing sound customer relations



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SALES TEAM

continued

and building profitable sales—all within the framework of over-all company marketing objectives and policies.

Even the best selling team needs management support to do its job effectively. The key question is: What kind of support? To find the answer, put a magnifying glass on the job of the salesman in the field.

What parts of the marketing job does he find difficult, if not impossible to perform himself? It quickly becomes obvious that he needs training if he is to learn how to study his markets, to know his products, to sell effectively, and to keep sales records. He needs supervision in planning, organizing, and controlling his own work and in actual selling. To provide advice and service in sales training to the sales supervisor, we make available to him a sales training man at the field sales level—where he needs it most.

The next step is to provide an integrated staff for the marketing manager. We can determine his needs if we analyze our objectives in such areas as market research, distribution, advertising, sales promotion, and product service. The character and importance of each of these functions will vary with the company, its products, markets, and methods of distribution. However, full provision should be made for those staff services that are warranted so that field salesmen will have the advice and support they need in their day-to-day selling jobs.

Use product managers

When a company begins to diversify its products and to disperse its selling operations on a national or international basis, it often runs headlong into the principle of selective selling: "When required to sell two or more product lines through different distribution channels, a salesman tends to show selective emphasis in his selling effort." The more diversified the lines he handles, the more likelihood there is that a salesman will push one or a few products and neglect the others.

The same holds true in staff handling of problems centering about different products. Unless prompted otherwise, the marketing manager's advertising, sales promotion, market research, and other staff functions will show a natural tendency to neglect those lines with the smallest volume, least immediate profit po-

tential, or those demanding different handling for other reasons.

One cure is the use of staff product managers. They can help to focus the efforts of field salesmen on each major product line and to pinpoint the attention of staff men in advertising, promotion, and market research. The staff product manager provides advice and service both to the marketing head and to field salesmen in planning, organizing, and controlling the sales of the product line for which he is responsible.

This can be an ambiguous and difficult position unless clearly defined. First, everybody, including the product manager, must recognize that the position is staff; the product manager does not give orders to field sales. He does not have profit accountability for his product line; this is the prerogative of field sales. His key responsibilities are:

1. To develop and recommend sales forecasts, objectives, policies and programs for his product line with full participation of field sales personnel.
2. To participate in product planning and development.
3. To recommend pricing structure for his products.
4. To develop sales promotions, campaigns, contests, deals and other activities designed to advance sales of his product line.
5. To participate in or recommend development of sales and advertising budgets.
6. To provide advice and service to sales training and field sales in the selection, placement, development, and compensation of salesmen.
7. To review and evaluate results of plans for his product line and provide advice and service where required in the correction of unsatisfactory conditions.

Make your salesmen business managers

In the final analysis, the salesman decides the success or failure of the selling effort. Here a key principle has a direct bearing on the salesman's effectiveness: A salesman will be motivated to attain outstanding results to the extent that he is rewarded for achieving properly defined goals which he has adequate authority to accomplish through his own efforts.

The best approach here, as General Foods, Ditto, American-Standard, and other companies have discovered, is, so far as possible, to put every salesman in business for

himself. What specific procedure does this require?

First, he must be given a clearly defined territory. This may be either an area or a customer list.

Second, the salesman should develop with his supervisor a dollars-and-cents sales objective for his territory. This at once becomes the yardstick for his achievement.

Within his territory, the salesman should be given as much authority as possible to decide how he will attain his objective. With the initial help of his supervisor, he should make a careful and detailed study of his market. He needs to learn how to set his account objectives, program his work, budget his expenses, and organize his activities.

He also should understand the value of a carefully designed reporting system which keeps him alerted to his own progress and flags his supervisor's attention when help is needed. In addition to preparing reports for management use, the salesman receives reports from his supervisor which keep him posted on account status, inquiries and complaints, and related data.

To be a successful manager of his own time and business affairs, the salesman needs appropriate compensation. The key factor here is that what he receives, both in financial and nonfinancial compensation, should be related directly to his success in attaining his business objectives. Although situations vary widely, some sort of bonus or commission over and above straight salary is usually indicated. In some cases, group incentive plans will be a practical alternative. In others, chief reliance may be placed upon nonfinancial incentives.

Integration of marketing is simplified if we keep in mind that the new marketer is a sales manager who has learned how to manage. Because sales has lagged so far behind other functions of the business in mastering the principles of professional management, it has farther to go in preparing for its proper place on the over-all management team. However, as truly as marketing is the challenge of the future, the ability of marketing executives to master these new concepts will mark the way to greater success and profitability for the entire company.

—LOUIS A. ALLEN

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
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Executive Trends

What's ahead for business

The 1950's were eventful years for American management. They brought the Korean war, with all of its direct and indirect effects; a tremendous acceleration in industrial research and development; two recessions, and a truly remarkable outburst of interest in the professionalization of the executive's job.

In the 1960's you can expect to see at least two of these factors—research and professionalization of managers—continue as strong currents. These, plus the growing sophistication of business methods through such means as increasing automation in plant and office, will, to a large extent, determine the ability of American free enterprise to meet new challenges in domestic and foreign competition, changing markets, and the impact of further explosive population growth.

While it is doubtful that the 1960's will witness the arrival of the time predicted by some management authorities when business executives will have to be certificated as to their qualifications for managing, it is nonetheless clear that management itself will be a more exacting profession than ever before.

► One of the biggest problems of the 1960's, according to Carl F. Oeschle, Assistant Secretary of Commerce, will be that posed by technological displacement of workers. Business will have to train and retrain workers to qualify for the new and different jobs created by our technology, Mr. Oeschle says. He warns that government will attempt to fill any vacuum which business leaves, whether it be in the field of employment, or any other.

Are you ready for the next recession?

Talk of record-breaking business in 1960 fills the autumn air. Yet, many business planners are already looking one year further ahead—to 1961—and preparing for the recession which they expect to hit the U. S. economy at that time.

At a recent closed-door sales forecasting seminar in New York, executives from about 30 capital goods companies took a hand-count vote on expectations for 1960 and 1961. Most agreed that 1960 will be better, over-all, than strike-stricken 1959. But many of these men, including sales, finance, and production officers, stated that they are proceeding on the assumption that 1961 will bring the fourth recession since the end of World War II. (Reason most often cited: inventory adjustment.)

The uncertainties of 1961, and the planning problems created by

work stoppages this year, have made sales forecasting data a premium product in many U. S. companies.

► Sales forecasting is, of course, a hazardous occupation at best. In many companies several sets of alternative forecasts are made. Multiproduct companies tend to project more indicators than do companies with a single product, or a few products. The object of all sales forecasting, according to one executive, should be for management to try to beat the sales estimates which it is given by its forecasters.

Is no job better than a poor one?

Workers who are forced by circumstance to downgrade their status to obtain a job are no happier than those who remain unemployed, and perhaps even less happy.

A study of 500 former employes of a Detroit automobile plant reveals this. The study was conducted by Harold L. Sheppard, Louis A. Ferman and Seymour Faber through grants from the Institute of Labor and Industrial Relations of the University of Michigan and Wayne State University.

"A downward job change may be more damaging to a worker's self-esteem and morale than the sheer fact of being unemployed," Mr. Ferman points out. "The worker who remains unemployed may hope to find a new job comparable to his former one. The one who accepts a lower status position has his hopes and expectations dashed."

► Here are other factors related to worker morale, as indicated by the study: In the 40 to 65 age group, those who felt relatively young had higher morale than those who described themselves as middle aged or old. Workers with higher levels of skill who owned their own homes and had some savings tended to have better morale than those who were less fortunate in these respects. Those who had faith in other people had higher morale than those who were generally distrustful of others.

Industry faces mental health challenge

One of your most pressing responsibilities in the years ahead may be the task of maintaining a working climate in your company that is conducive to mental health for you and your employes.

The reasons for this can be reduced to statistical simplicity: Mental illness in U. S. industry is costing American companies billions of dollars a year in absenteeism, excessive turnover, alcoholism, industrial accidents, lowered productivity and labor strife. Estimates of the extent of this loss, in dollars, range from \$3 billion to \$12 billion annually. The problem affects executives and rank-and-file workers alike.

Aware of the toll which mental illness takes on its workers, more and more companies are enlisting the aid of psychiatry to help workers with emotional problems. Some companies are using industrial psychologists to help disturbed workers, and psychiatric treatment is being included in health insurance plans.

► Factors most often blamed for the rising incidence of mental illness in industry include bad supervision, repetitious work, lack of job security, and temperamental incompatibility of worker and job. Among the action steps urged by one authority on the problem (Charles J. Zimmerman, president of Connecticut Mutual Life Insurance Company) are these: Groups of companies should band together to finance the cost of psychiatric services for their workers and more business-supported mental health centers should be established.

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
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WHEN the National Chamber was brought into being more than 47 years ago, it had one central purpose.

Its purpose was to serve as a channel of communication and cooperation to let the Government know the views of business on national issues.

This, of course, is still the Chamber's central purpose. And the need for this channel of cooperation and communication is more apparent today than ever before.

Fortunately, the National Chamber is stronger today than ever before. It is better organized. Its program is more widely supported. It is more efficient in fulfilling its purpose.

Through the years, the Chamber has developed three effective ways to voice the views of business to the Government on national issues and national problems. The three ways are these:

A CHANNEL OF COMMUNICATION AND COOPERATION

1. TESTIFYING BEFORE

CONGRESS—On every important legislative proposal affecting the economy and the future of the country, an expert Chamber witness—or, better still, a team of expert witnesses—appears before the Committee of Congress directly concerned.

The witnesses submit to the Committee the recommendations of business, show why the recommendations are in the public interest, and answer questions.

2. CONFERENCES WITH HIGH GOVERNMENT

OFFICIALS—National Chamber officers, committee chairmen and staff specialists meet informally with the heads of government departments—to exchange information with them about legislative proposals; to learn

from them their thinking about trends and developments; and to show them the logic and soundness of the Chamber's position.

3. ACTION BY BUSINESSMEN BACK HOME—

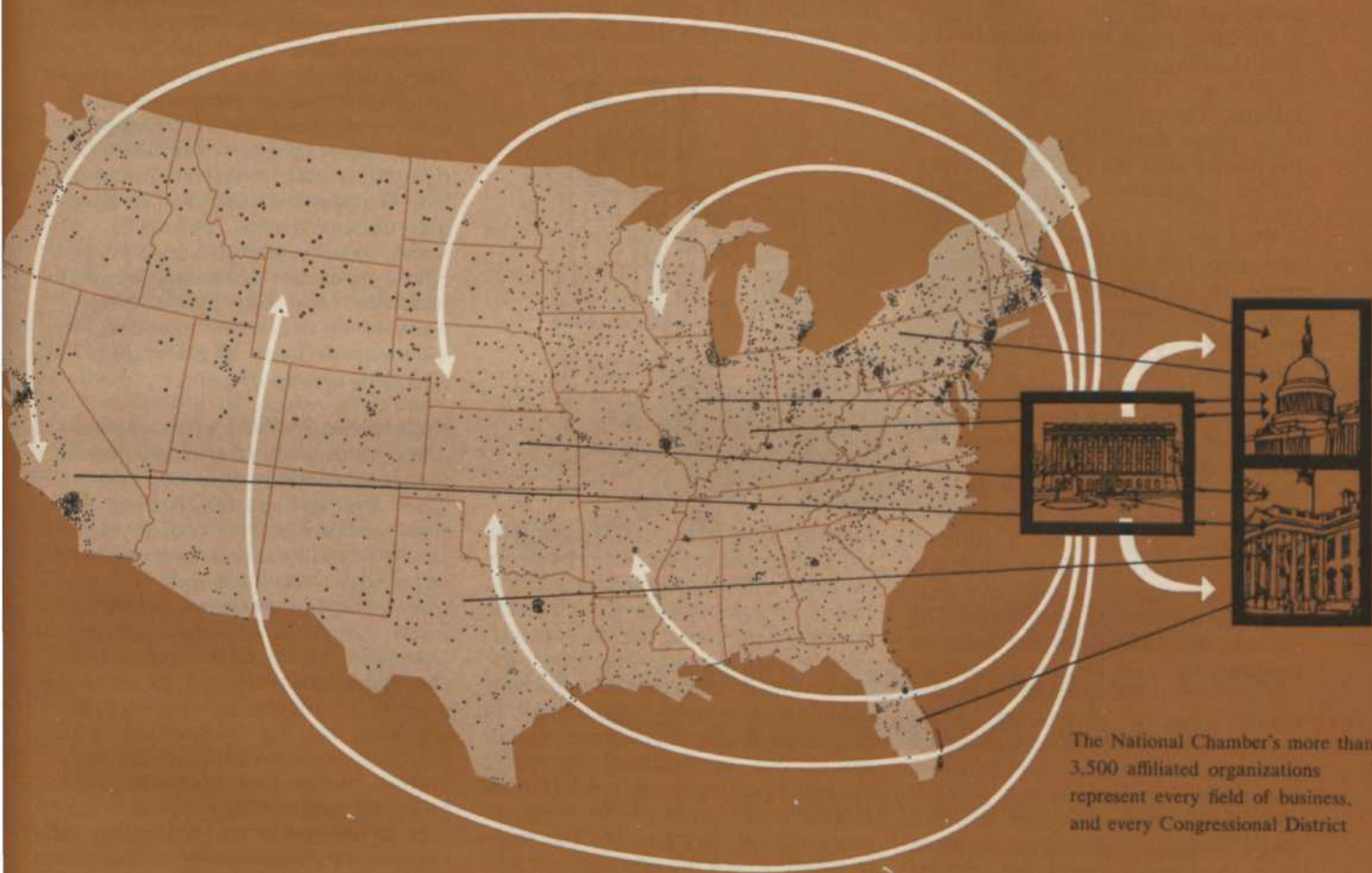
Through its nation-wide Congressional Action Committee program, the National Chamber keeps businessmen in every Congressional District informed about what is happening in Congress.

Under this program, each Committee member assumes responsibility for studying and following certain national issues of particular interest to him—and for expressing and explaining the business point of view on those specific issues to his elected representatives in Washington.

These Congressional Action Committee members also assume responsibility for encouraging other business and community leaders to make their thinking and influence felt in government—to supplant complacency with intelligent action.

You will find general agreement in Washington on this: If it had not been for the work of the National Chamber in communicating to Congress and to the Administration the views of business during the past 47 years—and particularly during the past three decades—different laws would have been enacted, and a different philosophy of government would have grown up and flourished—a philosophy not in harmony with competitive enterprise and the free-market economy. Something to think about.

For further information about the National Chamber as a channel of business cooperation and communication, write for a free copy of our progress report, "The Practice of Freedom."



GROWTH

continued from page 36

long-duration unemployment has reappeared. The number out of work more than six months reached approximately one million in the 1957-58 recession. With the growing number of older workers and the change in skills demanded as a result of technical changes, the possibility that any period of unemployment may become permanent is becoming greater. So, from labor's standpoint, job protection becomes increasingly important. But job protection in a changing technology means a checkrein on progress. It retards increases in productivity. If combined with wage increases, it can push costs up.

An apparently irreconcilable conflict thus emerges for the first time in 30 years of labor-management relations. On one side is the need to keep costs down. On the other is the belief that jobs should be protected at the same time that wages rise.

This conflict is aggravated by the fact that the battle may be fought more in the territory of consumers than in the territory of management or labor. This is true for two reasons:

First, labor's most potent weapons, the strike and the picket line, interfere directly with customer access to goods and services.

Second, such a large proportion of an industry can be shut down at one time as to make it difficult for customers to obtain an alternate source of supply. Labor therefore hopes to achieve its goals in part by making life difficult for the innocent bystander.

Any economic machinery which cannot prevent, discourage, or at least resolve conflicts between major interests, except at the expense of the general public, is not what it should be. Decades ago when a union struck against one plant or firm, customers could get similar goods or services at many competing plants. The strike was then a weapon directed principally against a company. It was a weapon society could sanction.

But when a strike becomes a war with customers, the institution needs re-examination. Labor abroad is recognizing this fact. The recent bus strike in London caused serious concern among British labor leaders, for instance. It brought home the need to revise old methods of handling labor-management relations.

There are signs that labor as well

as management in the U. S. is recognizing the need for a change. The recent agreement signed by Armour with representatives of its workers called for creation of a fund to be built up by earmarking a proportion of income from sales to retrain workers whose jobs were lost through changing technology. This fund will attempt to discover what types of jobs will be in demand, and train otherwise superfluous labor to fill them. This will give workers employment security. If workers can have future employment security they will be less interested in present job security.

History shows that the industries that advance fastest technically tend to be those which add to employment. There are exceptions, particularly if the advance comes late in the industry's life, as in coal



mining. But, in general, technologically stagnant industries may be industries with poor employment histories. So a development such as the Armour agreement, which improves labor's employment prospects at the same time it cuts employment costs, could mark a new development in labor-management relations. Labor would not be tempted to strike against consumers as quickly, and management could afford wage increases to accompany the increases in output which the agreement would encourage.

Relations of labor and management would evolve to meet a new situation, rather than remaining rooted in the past; a block to progress. An evolution of some such nature would benefit labor, management, and the general public.

Social security

The Old Age and Survivors' Insurance program was started in a depression. It was designed to give some help at retirement, but also to discourage older people from stay-

ing in the labor force. It made sense to encourage people to stop working when jobs were short and unemployment was persistently high. It does not make sense when the number of skilled middle-aged workers is dropping and life expectancy is increasing.

Steps which would permit older workers to continue their employment, if they wish, would not mean denial of jobs to younger men today. Permission for older people to work may often mean the difference between comfort and penury, self-confidence and despair, success and failure.

For both economic and psychological reasons, changes in our old age pension systems are sorely needed.

Similarly, unemployment insurance should be integrated into retraining programs. Workers are trained in their youth and take jobs then available. But the skills they acquire as youths may come to be in less demand later. Unemployment insurance as administered today does little to relieve this problem. Britain has succeeded in keeping unemployment below U. S. levels, in some part, because of specific approaches to unemployment problems. We rely upon general prosperity, not specific action, to solve, or at least to alleviate, the effects of unemployment.

Regulatory bodies

Regulatory bodies have never fitted comfortably into our system. They are not courts, neither are they administrative bodies. After nearly three quarters of a century we still do not know how to treat them. Regulation is necessary because laws cannot cover all contingencies and courts cannot have the expertness required to make a success of regulating industry. So we have set up institutions with many of the attributes of administrative bodies and yet with attributes of courts. They are not subject to the rules and restraints of courts, yet possess more real power than many courts.

The use of power is likely to beget a firm belief by the user that he is right and those he is regulating are wrong. In time, the regulator may begin to believe that he knows more than most managements about how to run a business and the rules by which it should be run. Then regulations become matters of detail, as well as, or even more than, matters of principle.

The impact of the Interstate Commerce Commission on the railroads has often been cited as an illustra-

tion of this type of development. Seventy years ago the railroads were relatively indifferent to the well-being of their customers or employees. Competition was not then rigorous enough to ensure fair play.

Today commercial transportation is one of the most regulated and least efficient industries we have. Manufacturing, which is subject to far less regulation and has had more difficult technical problems to solve, has progressed much faster than has transportation.

We have not yet learned how to merge a system of regulation into a government by law. The problem is becoming increasingly acute as business firms grow. When companies were relatively small, and there were many in each competitive field, an action against one or a few of them had relatively little effect on the economy as a whole (except possibly in railroads).

But now that the average employee requires an investment by the company of \$20,000 in capital, fewer but larger firms are necessary. Consequently, an action taken against a larger firm may have grave implications for a large proportion of employees in the industry, as well as for stockholders and customers. It is increasingly important, therefore, that any action be well considered. It should not be an action flowing from a feeling of power by some commissioner, or from an antiquated economic or social philosophy. It should be based on clearly understood rules, following clearly understood procedures, with the economic consequences clearly understood.

Our failure to understand the importance of regulatory agencies, or to understand how to use or restrain them, could be one of the greatest economic machinery failures of the '60's.

Money and credit

One particular area where more progress has been made than in possibly any other is the regulation of money and credit. In 1912, Congress set up a monetary commission to devise machinery to overcome the difficulties resulting because the supply of money and credit did not respond automatically to changes in demand in such fashion as to encourage healthy growth.

It was hoped that the Federal Reserve system, which was created as a result of the work of this committee, would make money and credit the servant, not the master, of the economy.

But today's conditions are quite different from those which saw the



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GROWTH

continued

creation of the system. Consumer credit was a minor factor 45 years ago. More than \$50 billion of such credit is now extended each year. Commercial bank loans exceed \$100 billion, but corporate notes and accounts receivable—another form of loan—also exceed \$100 billion, and corporate net working capital exceeds \$125 billion. Efforts to control bank loans are likely to show delayed and uneven results at best. Money or credit shortages created with the best of intentions therefore tend to hit governments, small business, and housing far sooner and harder than they hit industry.

The British government has just completed a monumental analysis of banking and credit policies. The resulting report has several important changes to suggest for the form and the operation of their institutional control of money and credit. This is the second such exhaustive study made in England in the past 30 years. We have not had one for 45 years. Current difficulties suggest that we also should thoroughly re-examine our institutions controlling money and credit.

Many serious students are concerned that the system cannot stand the strain to which it is being and may soon be subjected. Their fears may be greater than the facts warrant, but they do indicate that the money and credit machinery has not kept abreast of changes in the economy.

Local governments

Local governments are among our most antiquated institutions. When life was rural—and when complicated but efficient utility systems, such as water, sewer, streets, limited access highways and power systems, did not have to cover scores or even hundreds of square miles—local governments could be truly local and relatively simple. They could be run by average citizens in town meetings. Today the operation of utilities takes great engineering and business skill. It cannot be handled as a by-product of an annual meeting or election.

Streets must serve huge volumes of traffic. They cannot do this if they are not integrated into efficient metropolitan systems. They cannot function as a series of independent streets; they must function as parts of metropolitan systems. Unless transportation can be handled efficiently, unless police, education, ur-

ban redevelopment, taxes and other metropolitan problems are handled satisfactorily, business cannot function competitively. Communities which can serve employment and employe needs well will gain at the expense of other communities. Metropolitan governments, then, are another pressing institutional problem.

Taxes

Taxes interfere with growth and profits by the habit of simply growing. New opportunities for governmental spending occur frequently, or, as in wartime, irresistible needs for added governmental expenditures develop. Local, state, and national legislators look around for capital and income which can be tapped with the least resistance—not with the least harm to a growing economy. In a few governmental jurisdictions, it was calculated some time ago that the combination of all income and other personal taxes exceeded 100 per cent of certain income brackets. Obviously, no one in those income brackets did or could live in those jurisdictions.

When taxes, personal or corporate, make some types of activity unprofitable, or when governments want to encourage certain forms of enterprise, or philanthropy, exemptions are granted. The result, in time, has become a hodgepodge of taxes which interfere with growth, and which distort the growth that does occur.

Taxation has not stopped over-all growth. The U. S. is rich and healthy enough to stand this blood-letting. But it is interfering with rising standards of living and checking increases in productivity. Our tax structures need to be examined from the standpoint of their effect on the economy, as well as from the standpoint of how much they yield an ever hungry nest of state, local, and federal governments.

One of the main difficulties facing executives, whether in business, labor, or government, is the lack of time to think about basic problems. Day to day problems are more than enough to absorb all the energies available. So major problems that go beyond the scope of the executive's own organization get even scantier attention than do basic problems in his own shop. But the economy is now so interdependent, and the efficient functioning of social, political, and financial institutions so important to the success of business enterprises, that concerns which want to pay their own way and earn good profits must pay attention to such matters.—ROBINSON NEWCOMB



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Consumers help keep dollars sound



University of Michigan survey shows:

Of families in the \$7,500 to \$15,000 income bracket

45% choose banks and bonds as wisest investment

40% choose common stock and real estate

15% choose both together




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| ACF Wrig | .40.. | 99 | 133 1/2 | 14 1/4 |
| Acme Stl | 1.20.. | 12 | 31 | 31 1/2 |
| Adams Ex | .45g.. | 1 | 27 1/2 | 27 1/2 |
| Addressog | 1 1/2b.. | 16 | 108 1/2 | 110 |
| Admiral | | 42 | 183 1/2 | 20 1/2 |
| Aeroquip | .40b .. | 2 | 28 1/2 | 28 1/2 |
| Air Reduc | 2 1/2.. | 18 | 79 | 80 1/4 |
| A J Ind | | 8 | 45 1/2 | 4 1/2 |
| Ala Gas | 1.60.. | 5 | 307 1/2 | 31 |
| Alco Prod | 1.... | 2 | 185 1/2 | 183 1/4 |
| Aldens | 1.20b .. | 7 | 37 | 37 7/8 |
| Alleg Co | | 393 | 127 1/2 | 13 |
| Alleg 6 pf | .60.. | 63 | 42 | 42 1/2 |



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Psychology of man-in-the-street has real effect on future prices

THE AMERICAN CONSUMER is in a mood to continue a type of behavior that has tended to check inflation rather than feed it.

But consumer attitudes could change. Consumers could adopt an inflation psychology as they have done in other times and in other countries.

Are they likely to do that?

Last summer the Survey Research Center of the University of Michigan undertook to find out. The survey showed these recent changes in consumer attitudes:

The average consumer is increasingly inclined to regard slow inflation as probable.

The consumer is interested in diversifying his savings and investments; investment in common stock has become more attractive to him in the past few years.

But in the following respects American consumers think at present the same way as 10 years ago:

They have confidence in the dollar and believe that adding to savings deposits is a good way to save.

They believe that rising prices are bad for themselves as well as for the economy.

They tend to react to price increases by spending less rather than by stocking up.

Comparing these present attitudes with those revealed by earlier surveys offers some guidance in determining markets and setting price policies.

In the past summer about 60 per cent of people with a family income of more than \$5,000 a year thought that, five years from now, prices would be higher than today. This is a much larger proportion than in previous years. In earlier surveys,

The author, Dr. George Katona, is program director of the Survey Research Center of the University of Michigan.

even though people expected higher prices within a few months, they felt they would not be higher five years later.

Forty per cent of these people still doubt that inflation will stretch over five years. Even those who expect it to continue believe the price increases will be relatively small. About half say the rise over the five years will be three to five per cent; one third expect increases of 10 per cent. Only one sixth expect a higher rise than that.

More important still: The attitudes about how these price increases would affect people have not changed. Most people believe that the crucial problem is whether their incomes will keep up with rising prices. When asked directly, "Can anything be done to protect oneself financially when prices keep rising?" most upper-income people either say flatly that nothing can be done or reply, "If prices keep rising we must spend less."

The answer reflects the enduring strength of underlying attitudes: Creeping inflation means tightening belts rather than beating the price increases by buying in advance.

Only 10 per cent of all people interviewed and 20 per cent of upper-income people mentioned buying common stock or real estate as a protection against inflation. The attitudes toward such investments with variable value were also studied by asking the following question: "What would be the wisest thing to do nowadays with money over and above what one needs? Put it in a savings account, buy government bonds, convert it into real estate, or buy common stock?"

People with an annual family income of less than \$7,500 overwhelmingly vote for savings accounts and savings bonds; people with an income of more than \$15,000, for common stock and real estate. Here is the distribution of answers by people with family income between \$7,500 and \$15,000 (representing now more than 20 per cent of all American families):

Banks and bonds are
the wisest investment... 45 per cent
Common stock and
real estate are the
wisest investment 40 per cent
Both together 15 per cent

100 per cent

During the past few years the proportion preferring common stock and real estate has grown. But still today more people prefer savings accounts than vote for common stock. Furthermore, today as well as in



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CONSUMERS

continued

past years, relatively few of those who express a preference for common stock or real estate mention inflation when asked for their reasons.

"One could make some money by buying common stock (or real estate)," is the most frequent explanation.

Even the highly suggestive question, "Some people talk of inflation; would inflation make any difference to what you consider the wisest thing to do with savings?" induced only a few people to change their opinion.

Are these answers to survey ques-

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HOW TO BUILD A WINNING SALES TEAM

tions in accord with how people actually handle their finances? Studies of the extent of investment in common stock permit us to answer "yes." In 1955 about nine per cent of American families owned some publicly traded common stock, and an additional three per cent owned privately sold stock. Since then the proportion of owners of publicly traded stock has risen to about 12 per cent of all families.

Proportionately, an increase from nine to 12 per cent is large. But an ownership rate of 12 per cent—or of 15 per cent if we include owners of incorporated businesses—is hardly evidence of inflationary psychology among the masses, especially if one considers that more than one fourth of the stock owners own stock worth less than \$1,000.

Such answers do not suggest that consumers are in the mood to start buying in advance and in excess of immediate needs, which charac-

terizes inflation of the classical type. Americans have behaved this way only once since World War II. Shortly after the outbreak of war in Korea, many businessmen as well as consumers hurried to stock up with raw materials, machinery, household equipment, and all sorts of storable commodities in expectation of price increases and shortages. This pressure on supply drove prices higher, but even then withdrawals from savings and demand deposits remained small.

At all other times between 1947 and 1959, surveys have revealed an entirely different behavior pattern. Consumers have contributed to slowing down inflation, not only through their reluctance to buy such things as automobiles, household equipment and similar goods following price increases, but also by the pressure that fear of adverse consumer reaction has put on price increases.

Consumers were therefore instrumental in bringing about price plateaus several times during the past decade. These interruptions, in turn, strengthened the belief of many consumers that a rising price trend is not inevitable.

A wide gap separates creeping inflation from runaway inflation. Even though small price increases are often followed by wage increases which tend to push prices up further, this process is not accelerated by speculative frenzy. Consumers continue to save in ways which reflect trust and confidence in the dollar.

One further possibility emerges from our studies, and it is less reassuring. There is nothing inevitably enduring in the attitudes of American consumers. It is no doubt possible for consumers as a whole to acquire new notions about creeping inflation and to change their behavior. But analysis of recent changes in consumer behavior indicates that the masses of people change their way of thinking only under the impact of sudden developments. The consumer is a stabilizing force in our economy rather than one which promotes excessive fluctuations.

Government policies in opposition to creeping inflation likewise remain useful because those policies and pronouncements reinforce the resistance of consumers and businessmen to price increases.

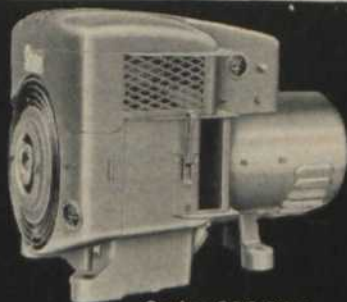
Even though the direct impact of monetary policy and especially of rising interest rates on inflation appears to be small, the psychological effect of a strong governmental stand against inflation should not be underestimated.—GEORGE KATONA

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UNIONS

continued from page 33

particularly the restrictions on certain kinds of picketing and secondary boycotts.

Leaders hope that the cleaning up of unions through the operation of the new law will help counteract some of the legal handicaps to organizing.

A big publicity and education program is being planned to influence the public and union members in favor of unionism.

Much of the program will be aimed at white-collar workers, among whom there is the greatest potential for unionization. (See "Here Comes Union Drive on Office Workers," *NATION'S BUSINESS*, February 1959.)

To woo and hold these professional and other white-collar workers, union leaders are considering new approaches, possible changes in emphasis on union goals, and other changes which might give unions a more professional flavor, thus increasing their appeal to the largely untapped white-collar group.

Collective bargaining

Union-management bargaining is going through a transition. Formerly union demands were the chief issues in bargaining. Now both sides are coming in with demands.

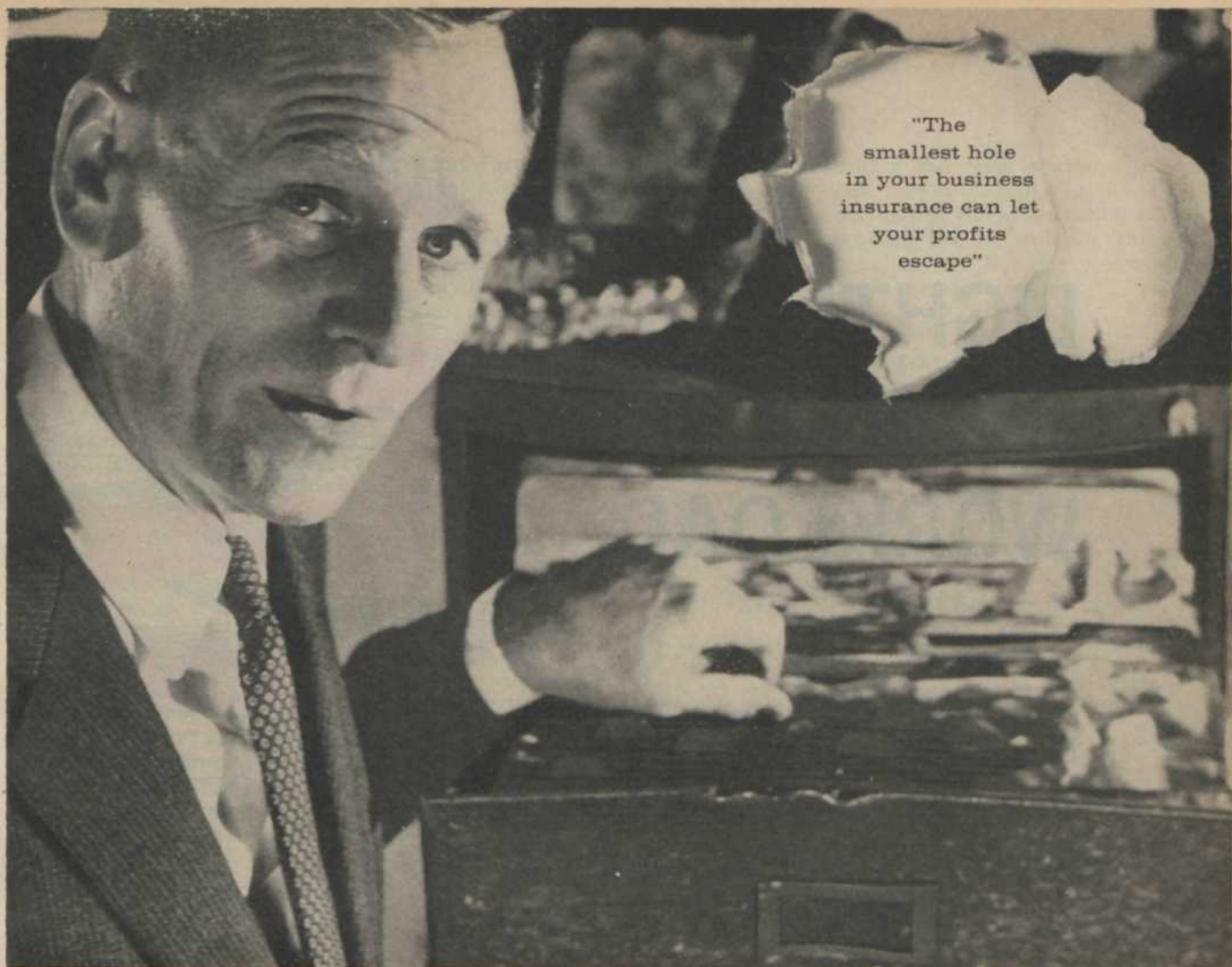
This give-and-take philosophy emerged during the 1958 recession and in the automobile negotiations that year. It was reflected in the steel negotiations and long strike, and in the efforts of management in the airline and other industries to adopt mutual assistance pacts to protect each other against union whipsaw tactics in case of strikes.

Unions, too, are entering into more bargaining alliances with each other and building large strike funds through dues increases or donations. The AFL-CIO, for instance, is trying to raise a multimillion-dollar strike fund by asking each of the 12.6 million members in affiliated unions to donate one hour's pay a month.

The growing number and size of union strike funds, combined with a shift away from long-term escalator contracts being pressed by some employers, will increase the chances of strikes.

END

REPRINTS of "Where Unions Go From Here" may be obtained for 10 cents a copy or \$7.00 per 100 post-paid, from *Nation's Business*, 1615 H Street, N. W., Washington 6, D. C. Please enclose remittance.



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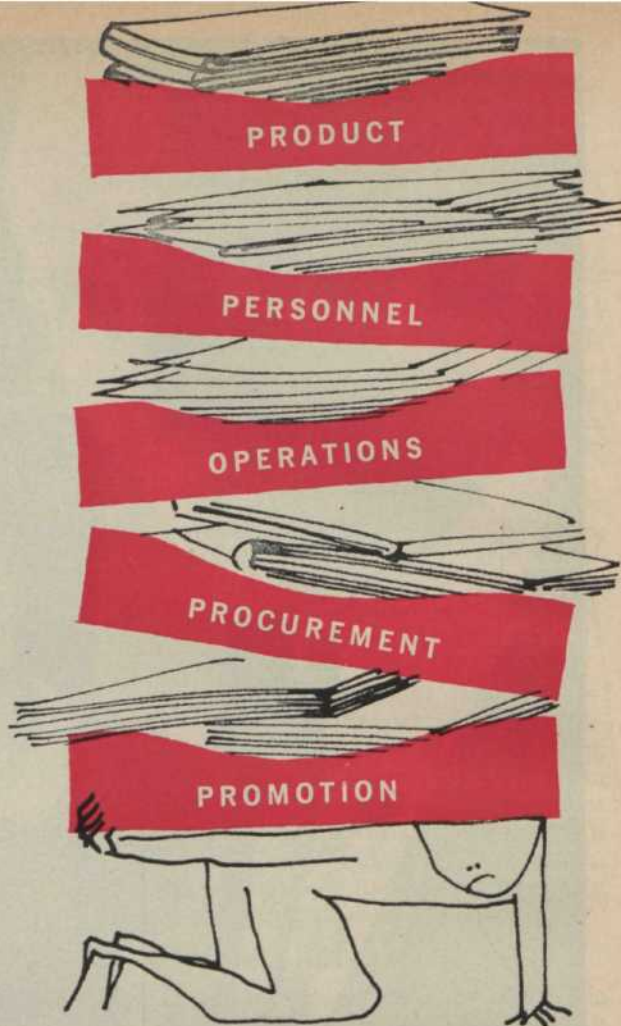
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LIGHTEN YOUR WORKLOAD

Here are five areas where
standard procedures
can save time and effort



MANY COMPANIES today are surveying their operations to see where standard procedures and policies can help eliminate detail from administrative work loads.

With fewer details to concern them, executives are free to concentrate in more creative and productive directions and can devote more time and energy to increasing company efficiency.

Standardized procedures must be tailor-made to the company or organization which uses them, but it is possible to develop check lists for exploring areas in which standardized and written operating procedures or policies might be advantageous. The list is organized according to five important areas of management:

- ▶ Product
- ▶ Personnel
- ▶ Operations
- ▶ Procurement
- ▶ Promotion

The best approach to the survey is to study the list first in its entirety to get the broad outline of what is included. Then, find those

functions closest to your own interests. Study these with the aim of making imaginative transfers of suggestions to your particular problem.

Once you have suitably explored your own primary-interest area, and have taken whatever steps and actions seem needed, you can broaden out into areas adjacent to your own function that affect the way you perform your job or that are, in turn, affected by the way you handle your part of the operation.

Like any other check list, this one is designed to be adapted to a particular situation, rather than adopted as a whole.

Product

Often, when a new product or service is standardized to the point of full production, it is then almost forgotten by everyone except the people who have to turn out "X" number of units a week and the sales department, which is required to sell those units. However, nearly any company will benefit from a policy of examining products both at the time they are launched for full-scale marketing, and at regular

periods for as long as they are on the market. Points such a policy should cover include:

Ways to increase production: Are present production facilities fully utilized? Would simple modifications of system, procedure, or flow enable us to increase production? Are we using the latest methods for handling all operations?

Ways to decrease costs: In this area a company should have fixed policies to accomplish two things: First, make sure that, if costly expedients were used in the heat of getting the product ready for market, a search is made for different ways of accomplishing the same function. As an example, a company producing an electronic component used several tuning knobs on the control panel. To get the knobs they needed originally, they turned them out in their own plant at a cost of \$2.25 each. Once in production, however, they had time to look around and were able to locate a plastics manufacturer who agreed to produce the knobs for 25 cents each.

A cost-reduction policy should also make sure that new methods of

manufacture, or new components, or new materials do not come onto the market without being tested or measured against those currently in use. As a general rule, most products should be re-examined every six months for possible ways to cut the manufacturing costs through either methods or materials substitutions or changes.

Ways to improve quality: Most production or service departments require reports of customer complaints and product rejections and repairs.

A policy may be possible to provide for regular study of complaints by designers as a means of pinpointing chronic product weaknesses that might give competitive products a marketing edge.

Standardization of design: The usual pattern of company growth is one of expansion into related products or, in the case of a consumer product such as toothpaste, of expansion into self-competing lines in an attempt to get a larger share of the available market.

In either case, product "B" is likely to bear some similarity, either in make-up, production requirements, or marketing needs to product "A" which preceded it. Product "C," which follows "B" into production, will, in turn, carry over some similarity to "B." These similarities offer many possibilities to standardize either minor designs or major components.

Materials testing: To protect itself and its competitive position, a company should have a detailed policy to provide for a materials testing function—who will do it, how it will be done, what standard tests will be run where there are standards, who will be responsible for devising new tests if necessary, and what should be the objective in testing.

Utilization of stock parts: To enjoy the economies of purchasing commercially available stock parts, company policy should spell out just how far to go in using stock parts as product components. This may be based on the considerations of a competitive situation: Could a competitive edge be gained by some exclusive or patented part? Or it may be dictated by the need to provide a unit which can be readily serviced by anyone, anywhere. When the Minnesota Mining & Manufacturing Company intro-

duced a new machine for applying plastic tape to metal pipes as a corrosive insulator, it designed the taper entirely from commercially available, or readily fabricated, parts. This machine is intended to be used anywhere anyone might want to coat pipe—in the field beside a ditch, as well as in a plant or yard. Therefore, it seemed desirable to make it as easy to service and repair as possible. The company was primarily interested in

selling the tape, so there was no real reason to design in any special exclusives. Such marketing considerations can be valuable guides in deciding just how far you want to go in use of stock parts.

Personnel

In spite of the attention that has been paid to industrial and personnel relations in the past few years, few companies are so progressive that they still don't have some blind

PRODUCT

Quality, design and materials are possible areas for standard policies

PERSONNEL

Organization structure and employee relations should be guided by company policy

OPERATIONS

Maintenance, equipment and inventory questions can be answered by standard procedures

PROCUREMENT

Policies can be drawn for supply and purchase decisions to save managers' time

PROMOTION

Tie up loose ends with standard procedures for marketing, budgets



YOUR WORKLOAD

continued

spots in personnel relationships. Here are a few places where policies may have been overlooked:

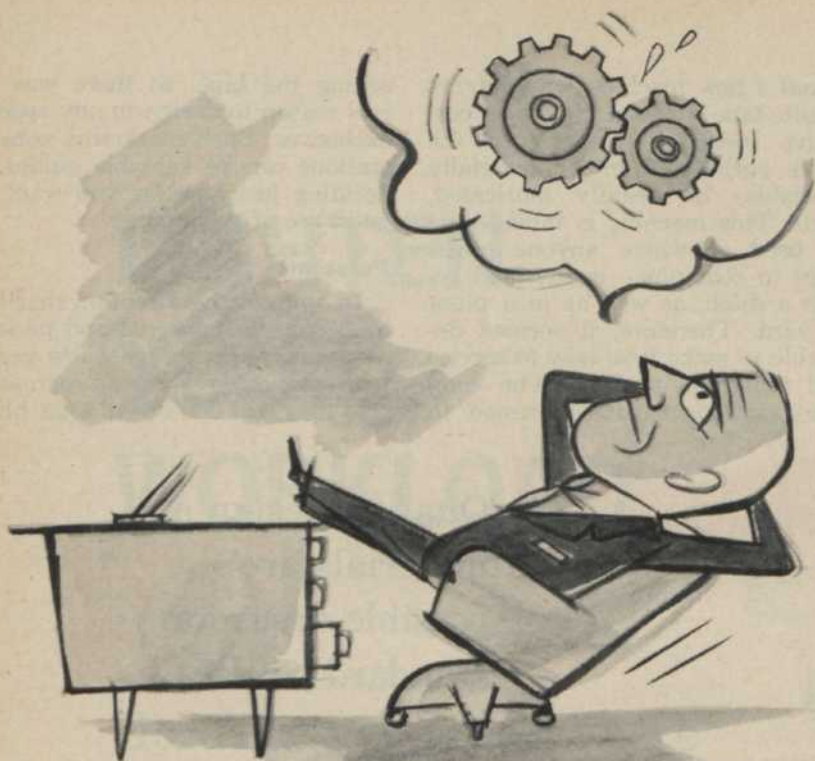
Organization structure and functions: Does your present organizational structure take into account your future growth needs? Some companies have traced back their growth patterns and found correlations between personnel and sales figures. This gives them a formula for predicting future needs in nearly all job classifications. These companies also set up their organization structures to allow for orderly expansion of functions, departments, and subsidiaries along the lines of their predicted growth.

Job classifications: This includes job descriptions. It is necessary to assign responsibilities and authority in a business structure, but, at the same time, it is possible to make a job compartment too tight. If workers, or executives, are so restricted by job specifications that they are never exposed to problems or problem solutions from other jobs or departments, their ability to grow as individuals may be severely handicapped. In fact, some personnel specialists feel that over-organization may be the real villain in our shortage of generalists.

Personnel records: Personnel records should include previous job skills, special training, hobbies, outside interests, educational and geographic backgrounds. These can do much for a company when extra or emergency help is needed for special problems.

Discharges and layoffs: Every employee, hourly worker or executive, has a right to know where he stands in regard to discharge and layoff policies. Even unions agree that certain abuses merit immediate dismissal or a penalty layoff. The trouble usually starts when someone attempts an on-the-spot formulation of a new policy for an offense never before considered punishable, or where the punishment has often been by-passed for one reason or another. Any absolute reasons for either discharge or penalty should be spelled out to everyone in such a way that they cannot possibly be misunderstood.

Accident prevention: Here are some questions that can be asked, the answers to which may provide guideposts for measuring or improving your safety program. What



How busy are you?

"You've heard the saying—'If you want a special job done, give it to the busiest man!'"

"The reason behind it is that the 'busiest man' is usually a well-organized individual. *Because* his time is so valuable, he allocates it carefully. He is never 'too busy' for an important assignment, because he knows how to maintain a flexible schedule. And there's always time for that extra effort.

"So if you're one of the 'busy' men I am talking about, you'll have no difficulty in setting aside an hour or two each week for the many jobs which need to be done in your own community—jobs which spell the difference between a community which moves ahead and one which stands still.

"Coordinating these jobs for the good of your business and your community is your local Chamber of Commerce—a voluntary organization of 'busy' people. Try not to be 'too busy' to join them."



Pete Progress

Speaking for your
local Chamber of Commerce

is your cost per year chargeable to accidents? (Include hospital charges, compensation insurance, damage awards, wages paid during incapacitation, production losses.)

What accidents are more serious in nature?

Which are more temporary?

Where do most accidents occur?

Are particular types of accidents highly recurrent? An important part of any successful accident-prevention program is an up-to-date and detailed accident record, with an automatic policy of attention if anything gets out of the ordinary.

Job instructions: Any employee should know at all times and under all circumstances what constitutes a job instruction.

If it is policy to issue detailed written instructions for all work, then the employee should not be expected to take a sudden verbal change at full face value. On the other hand, if it is common practice to supplement written instructions with verbal, the worker should know exactly who has the authority to make verbal exceptions or changes in what he has in writing.

Operations

Generally, production policies cover the actual plant and physical equipment needed to produce a product, and the utilization of that equipment to maximum efficiency.

Equipment inventories: Is enough equipment on hand to meet all production demands? On the other hand, is equipment inventory overstocked? Is equipment idle a significant part of the time? Could special-purpose equipment be rented for short-term needs? Could time on other manufacturers' equipment be borrowed or rented to do small-lot specialized jobs?

Performance specifications: Production cannot be planned for maximum utilization of equipment without adequate information as to what a machine can do under varying conditions. For example, a milling machine will have different rates of production on aluminum, brass, and steel. In a plant with many machines of a type, the efficiencies of the various operators will have to be considered or even averaged out to make reasonable predictions of production abilities. In either case, there is no substitute for detailed analytical records to help the production men.

Maintenance: Policies here should cover details of repairs, replacements and obsolescence, with specific responsibility assignments for

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Transportation. The Valley is North America's new front door, port for the Seaway which brings northern Canada, the U. S. and Europe closer together by days. Now building is a super-highway net to link the Valley with the metropolitan American belt stretching from Boston to Milwaukee.

Development of natural resources is well under way. Major iron and steel companies are operating mines in the area. Natural resources such as limestone, graphite, talc, lead and zinc are also being exploited. Hardwoods are abundant. A huge share of the area's milk production... a billion-plus pounds a year... is immediately available for industrial uses. Electric power is plentiful at low rates and the water supply is limitless... the St. Lawrence River

has the second largest water flow in the world (only the Amazon has more).

The business climate is favorable. People here are enthusiastic about industrialization. Labor-management relations are good and labor productivity extremely high.

Already established in the Valley are such industries as aluminum refining, automotive castings, paper and dairy products. Opportunities in related fields are plentiful, especially in woodworking, metallurgy, metal fabrication and the manufacture of electrical components. Sites, many of them on the River, are available. For specific information, contact the Director of Area Development, Niagara Mohawk Power Corporation, Dept. NA-11, Erie Blvd. West, Syracuse 2, New York.

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YOUR WORKLOAD

continued

policing these details. In some cases, responsibilities will include either the machine operator, regular plant maintenance crews, or special members of the engineering section. Often, all groups will be—or should be—involved.

Tools and fixtures: Toolmaking and fixture usage should come under the policy-maker's eye in the realm of establishing standards for judging when to make them, and when to purchase a nonstandardized unit. Possibilities to standardize tools and production fixtures should also be examined. Frequently, a slight redesigning of a part will in no way impair either its function or its efficiency, but will make it possible to use existing tools or equipment in its production.

Materials handling: Materials handling, including storage of raw materials and semi- and fully processed products, is often a stepchild in the production picture. Storage space and warehousing is often space that is not needed for anything else, or space that happened to be cheapest when it was first needed.

In considering materials handling as a policy target, it is important to ask "Who?" in connection with most operations. Frequently, the responsibility for moving or storing supplies, materials, parts or finished products actually bears no relationship whatever to the most efficient handling methods or the most convenient storage locations for smooth production flow.

Quality control: As a general rule, you can "begin at the end" in your search for the places where manufacturing quality control standards should be applied. By starting with the end product and working back you will undoubtedly find places where an insistence on higher standards at the preceding step will result in either a better finished product, or a less expensive step in production.

Procurement

In the average company, this includes a combination of the usual purchasing function, with that of designing and specifying for the purchasing.

Centralized vs. decentralized purchasing: This will depend, to a large extent, on the company's type of operation. If purchasing requirements are relatively simple, chances

are the most streamlined handling will be through a single department. As purchasing requirements get more complex, however, a single unit may prove inadequate. In that case, decentralizing the function should be considered.

For example:

A dollar-value limitation may be set, below which individual units may do their own buying for day-to-day needs. Anything over this limit must go through channels. An obvious pitfall to watch for is duplication of many small orders for common supplies which, if purchased in quantity, could be bought more cheaply.

Another formula for decentralizing the purchasing function is based on types of materials. As an illustration, the purchase of new materials, to be used in limited quantities for research or pilot plant production, may often be made the province of the unit or department needing those materials.

The pitfall here is that once a purchasing authority, however limited, is given away, there may be some reluctance to give it back even after the original reasons for the assignment are no longer valid.

A third formula for decentralizing is based on stock levels and usages of materials. Those materials for small-quantity short-term needs—today, tomorrow—are ordered as needed by the person needing them. Long-range needs, which are more predictable, are bought through a central unit. Possible pitfall: the human proclivity to overestimate the urgency of a situation, which can lead to both extravagance and subquality buying.

Single source vs. multiple sources of supply: Most purchasing men advocate the multiple source of supply, as a hedge against ever getting stuck due to the internal troubles of one supplier. Most materials and component manufacturers, on the other hand, would like to get all the exclusive business they can from a company, and will put up arguments and cite case histories showing how their customers have always been protected on deliveries. The final policy for any company will have to be based on its specific needs.

One point that should be clearly resolved, however, concerns the economics of single-source buying. Some larger and broadly diversified suppliers have adopted policies whereby quantity discounts apply on the dollar volume of the order, rather than a quantity basis. This makes it possible for a customer to order many different types of sup-

plies from the same company, and enjoy quantity discounting over the whole order.

Planning and purchasing coordination: It is common for a design group, with sales, marketing, and other such planning functions, to carry a new product right up to the point of production and then call in the purchasing man to tell him what is needed in the way of supplies, materials, equipment, tools, etc. In many cases, if the purchasing man had been a member of the planning team, he could have made valuable suggestions along the way concerning availabilities of standardized parts, alternate materials or components, and ways to avoid having special parts made.

Suggested policy: no product should leave the design department without a cost review by a competent purchasing specialist.

Promotion

One of the distinctions between the American way and the way of most other countries lies in our exploitation of promotional possibilities. Yet even some of the most promotion-minded American companies frequently have many loose ends in their operations which, if properly tied off, would result not only in smoother operations, but also in more effective promotions.

Marketing responsibilities: Basically, the marketing concept, which has been getting so much attention lately, simply means starting with the consumer in product planning.

But many companies are still trying to sort out the details of who is to interpret these needs, or how their old products can be tailored to the new marketing concept.

Both sales and advertising departments are in the act, and, in some companies, new marketing departments are sandwiched in between. Where these departments are assigned a coordinating role, they can function effectively. But so far many of them are only confusing the issues and dividing the responsibilities for planning. Therefore, one of the first promotion areas to be looked at must be this fixing of responsibilities for determining the sales, advertising and/or marketing strategies.

Budget allocations: It is probably better for the long pull to put promotional allocations on some fixed basis such as percentage of sales. Another method to consider is the task method.

This begins with an estimate of what the company wants to accom-

plish, and then, working back, establishes the price of accomplishment. Though this is not particularly compatible with long-range planning, a switch can always be made to a percentage of sales when conditions warrant it.

From a policy standpoint, it is better to have a uniform method of determining how to allocate promotional dollars than an annual or semiannual guessing game.

Agency liaison: Another place where many advertisers waste motion and money is in their advertising agency relationships. Agencies, on the whole, are equipped to perform a dual function for the client: act as marketing and selling consultants and also act as purchasing agents for publication space, air time, outdoor display facilities, and the necessary creative and mechanical means to bring an advertising campaign into being.

To be most effective, an agency must be allowed latitude in professional recommendations, and be given a certain amount of confidence and security in making its recommendations. Agencies frequently claim they are handicapped by too many cooks in the client kitchen—people with the power and influence to direct, or misdirect, the

advertising expenditure or content, but who are not available to the agency for preliminary planning or for explanations to support particular recommendations. Therefore, one of the first places to begin to improve your agency relationships is to define carefully, in policy form, just how the agency will operate, and with whom it will operate.

Reviews and appraisals: Although the various measurement tools have many shortcomings, it is possible, within reasonable limits, to measure the effectiveness of promotional efforts. A sound policy is to review promotional efforts periodically—say, quarterly or semiannually—by whatever methods of measurement are available.

As all these are past records, it would be in the nature of insurance to set aside a certain percentage of each annual allocation for pre-testing advertisements and campaigns on which you are going to spend the bulk of your money.

Obviously, this is a broad survey of possibilities, and you can't capitalize on all at once. Start where you are, in any way you can. As one astute administrator observed, "Overhauling a company is a case of becoming a patch-work specialist. You patch here, and you patch

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there, and finally the patches become a new shell, and the changes are all made." It would also be a mistake to hold off doing anything until you have the perfect package.

Finally, remember that policies are not panaceas. Be sure to examine regularly in the light of current conditions any policies you set up. Better still, build in automatic feedbacks that will let you know when a policy exception should be made or when it is time to change.

—JOSEPH G. MASON

REPRINTS of "Lighten Your Workload" may be obtained for 15 cents a copy or \$10.15 per 100 postpaid from Nation's Business, 1615 H St. N. W., Washington 6, D. C. Please enclose remittance with order.

STATEMENT Required by the Act of August 24, 1912, as amended by the Acts of March 3, 1933, and July 2, 1946 (Title 39, United States Code, Section 233) showing the ownership, management, and circulation of NATION'S BUSINESS published monthly at Dayton, Ohio, and Washington, D. C., for October 1, 1959.

1. The names and addresses of the publisher, editor, managing editor, and business manager are: Publisher, Chamber of Commerce of the United States of America, Washington, D. C.; Editor, Alden H. Sypher, Washington, D. C.; Executive Editor, Paul McCrea, Washington, D. C.; Business Manager, William W. Owens, Washington, D. C.

2. The owner is: Chamber of Commerce of the United States of America, said body being an incorporated organization under the laws of the District of Columbia, its activities being governed by a Board of Directors. The officers are as follows: President: Erwin D. Canham, editor, *The Christian Science Monitor*, Boston, Mass., Chairman of the Board: William A. McDonnell, chairman of the board, First National Bank in St. Louis, St. Louis, Mo. Chairman of the Executive Committee: Philip M. Talbot, special assistant to the chairman and president, National Savings and Trust Company, Washington, D. C. Treasurer: Clarke Bassett, senior vice president, First National Bank of Minneapolis, Minneapolis, Minn. Executive Vice President: Arch N. Booth, Chamber of Commerce of the U. S. A., Washington, D. C. Vice Presidents: W. B. Camp, president, W. B. Camp & Sons, Inc., Bakersfield, Calif.; Archie K. Davis, chairman of the board, Wachovia Bank & Trust Company, Winston-Salem, N. C.; Roy C. Ingersoll, chairman of the board, Borg-Warner Corporation, Chicago, Ill.; Robert S. Macfarlane, president, Northern Pacific Railway Company, St. Paul, Minn.; Arthur H. Motley, president, Parade Publications, Inc., New York, N. Y.; Raymond H. Nichols, publisher and editor, *The Vernon Daily Record*, Vernon, Tex.

3. The known bondholders, mortgagees, and other security holders owning or holding 1 percent or more of total amount of bonds, mortgages, or other securities are: None.

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WILLIAM W. OWENS
Signature of business manager

Sworn to and subscribed before me this 9th day of September, 1959.
[SEAL]

WILLIAM A. CREVELING
(My commission expires Nov. 14, 1963)



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sitting here!"

NOBODY makes any money when a salesman waits in reception rooms. That's why making appointments by Long Distance is such a good idea. You have more time for selling.

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| Denver to San Francisco | \$1.55 |
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These are day rates, Station-to-Station, for the first three minutes. Add the 10% federal excise tax.

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Long Distance pays off! Use it now...for all it's worth!



KHRUSHCHEV:

GOOD POLITICIAN; POOR PROPHET

NIKITA KHRUSHCHEV may one day return to this country looking for work.

He told the American press: "If the capitalistic system is able to give people more than the communistic system, I will be the first to come to you and ask for a job for which I am fitted."

He appended this pleasantry to his explanation of what he really meant when he boasted: "We will bury you."

He referred, he said, to economic systems, not people. As private capitalism, being more efficient, replaced feudalism, so communism, a scientific organization of society, will replace capitalism, he said.

His recognized great abilities fit Mr. Khrushchev for many kinds of work, but prophecy and history teaching are not among them. He will not do as a bookmaker, either, because he is offering odds against a champion that has outlasted and outproduced every contender.

Private capitalism began when the first prehistoric man managed to accumulate a surplus of food, or cattle, or arrowheads and sought out someone who had a surplus of something he lacked. A swap would improve his own lot and that of his customer. Thus both would make a profit.

By Greco-Roman times there were factories producing for markets, bankers, merchants trading internationally, shipowners bidding for their business.

The upheavals and devastation that accompanied the fall of the Western Roman Empire inconvenienced capitalism but couldn't destroy it.

Neither could feudalism.

Private capitalism has not enjoyed this longevity because it is scientific, government-sponsored or preferred by businessmen. Nothing in our own laws or Constitution explicitly establishes it as our way of doing business. It grows naturally and spontaneously without

government encouragement and against government opposition because it satisfies people's wants.

These wants are whimsical, changing, not necessarily wise or attuned to public purpose. Neither government nor business can control them, although businessmen must adapt to them or face bankruptcy.

Government faces no such immediate compulsion. It can use production and resources as tools of national policy and give itself an impression of science and efficiency.

But maldistribution, shortages, rationing, and waiting in line, or worse, are bound to result. Our experience in prohibition days demonstrates what happens when government attempts to close a market that the people demand shall remain open.

A person who wants a drink is not much different from the person who wants a better home, an automobile, or nylon hose. Such people will not forever be dissuaded by threat of penalty, sermons about the sanctity of the law or boasts about the grandeur of the state.

If legitimate business is denied the right to serve, people support the illicit with an ingenuity that makes the state's brag of efficiency look pretty silly.

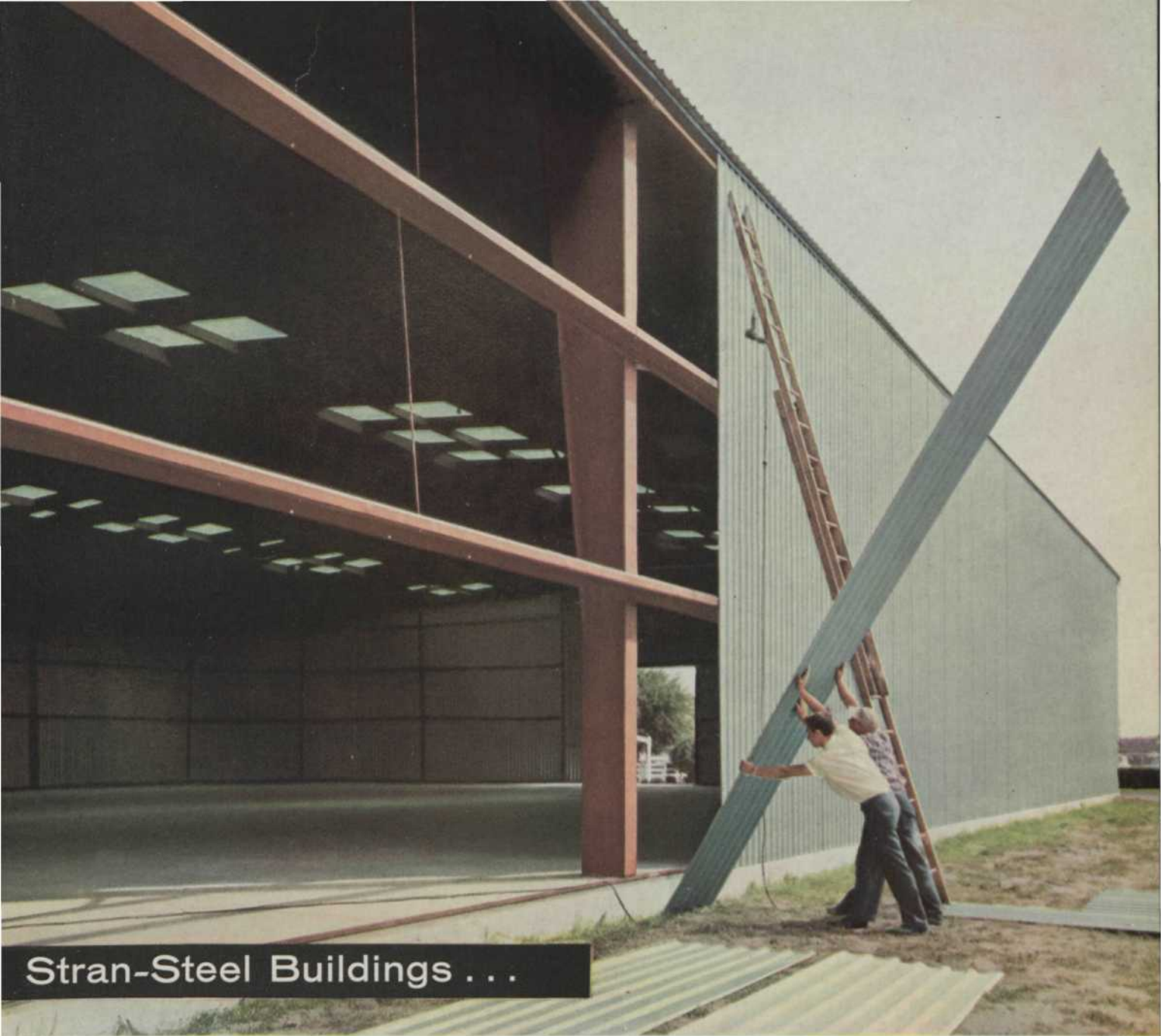
Mr. Khrushchev undoubtedly knows this better than his blustering assurance would indicate. The knowledge may underlie his eagerness to trade with this country.

Even if the request were granted he could not escape from the economic trap in which communism places him.

In its central ownership of land and resources, feudalism approximated the communism of Russia today. Mr. Khrushchev admits feudalism collapsed.

Historians agree that the collapse resulted from one major factor: better communication.

Mr. Khrushchev's communism doesn't dare to trade and doesn't dare not to.



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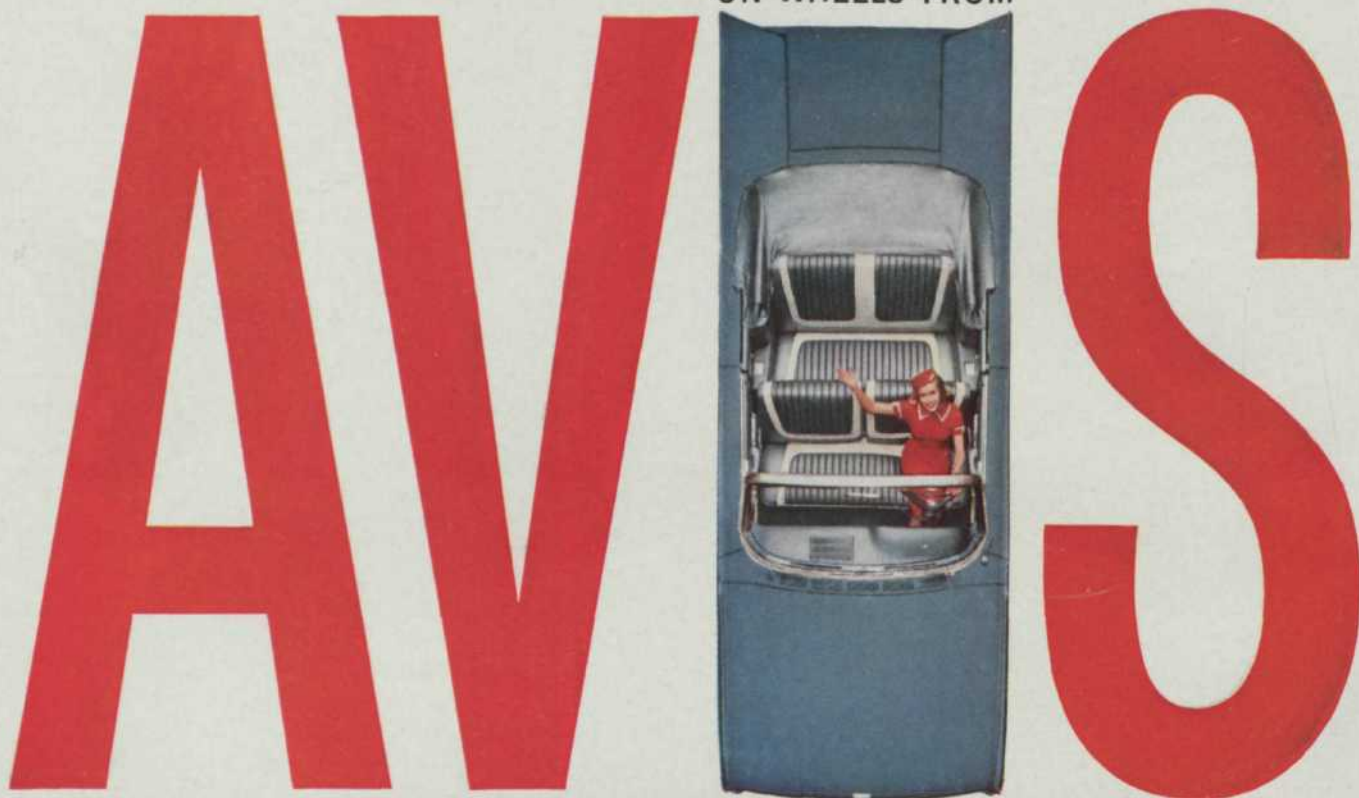
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